

DNP

ANNUAL REPORT 2017



DNP Annual Report 2017

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Editorial Policy

Our corporate philosophy is “the DNP Group connects individuals and society, and provides new value.” When we say “new value,” we are not talking only in terms of business operations, i.e. the development of new products and services. We are also referring to creating value in the medium and long terms by paying attention to the environment, society and governance, making quick and accurate decisions, and engaging in well-coordinated corporate activities. In “Annual Report 2017,” we discuss what kinds of value DNP will create from the resources available to us within and outside of our corporate Group, from both financial and non-financial standpoints.

This annual report is aimed at providing information about DNP's businesses, management vision, and business results. Opinions and forecasts contained in the report were based on the best judgment of management at the time the report was prepared, so we cannot guarantee that all information contained in the report is completely infallible. In this annual report, “DNP” refers to the entire DNP Group, and “we” refers to DNP or the DNP management team. (In the section on Corporate Governance (pp 60-70), “DNP” refers to Dai Nippon Printing Co., Ltd.)



Synopsis of Performance

Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries Years ended March 31

Grand Summary of Financial Results

	2017	2016	2015	Dollars in thousands except per share amounts 2017	Change 2017/2016
Statements of Operations (¥ million)				(\$ thousand)	
Net sales	¥ 1,410,173	¥ 1,455,916	¥ 1,462,118	\$ 12,590,830	-3.1%
Operating income	31,411	45,472	48,174	280,455	-30.9%
Ordinary income	36,740	52,651	53,759	328,036	-30.2%
Income before income taxes	39,831	54,841	51,062	355,634	-27.4%
Net income attributable to parent company shareholders	25,226	33,588	26,924	225,232	-24.9%
Balance Sheets (¥ million)				(\$ thousand)	
Total net assets	¥ 1,081,286	¥ 1,063,242	¥ 1,124,092	\$ 9,654,339	1.7%
Interest-bearing debt	169,135	189,821	187,946	1,510,134	-10.9%
Total assets	1,741,904	1,718,636	1,809,462	15,552,714	1.4%
Cash Flow Statements (¥ million)				(\$ thousand)	
Cash flow from operating activities	¥ 71,945	¥ 72,629	¥ 85,731	\$ 642,365	-0.9%
Cash flow from investing activities	14,012	(60,883)	(50,540)	125,108	—
Cash flow from financing activities	(45,223)	(47,166)	(23,865)	403,777	-4.1%
Free cash flow*	85,957	11,746	35,191	767,473	631.8%
Per Share Data (¥)				(\$)	
Net income	¥ 40.79	¥ 53.10	¥ 41.82	\$ 0.36	-23.2%
Net assets	1,680.55	1,618.66	1,675.63	15.00	3.8%
Cash dividend	32	32	32	0.29	—
Profit Margins (%)					
Operating income margin	2.23	3.12	3.29	2.23	-0.89
EBITDA margin	7.34	8.42	8.24	7.34	-1.08
Net income to net sales	1.79	2.31	1.84	1.79	-0.52
Financial Ratios					
ROE (%)	2.46	3.20	2.67	2.46	-0.74
ROA (%)	1.46	1.90	1.59	1.46	-0.44
D/E ratio (%)	16	19	17	16	—
Interest coverage ratio (times)	16.59	20.79	21.32	16.59	—
Valuations (against share price on March 31)					
PER (times)	29.43	18.84	27.94	29.43	—
PBR (times)	0.71	0.62	0.70	0.71	—
EV/EBITDA (times)	6.69	5.23	6.01	6.69	—
PCFR (times)	8.52	6.36	8.00	8.52	—
Dividend yield (%)	2.67	3.20	2.74	2.67	-0.53
Returns to Shareholders (¥ million, %)				(\$ thousand)	
Values of shares repurchased	¥ 14,999	19,998	—	\$ 133,920	—
Dividend payout ratio (%)	78.50	60.30	76.50	78.50	—
Others					
Long-term credit rating (R&I)	AA-	AA-	AA-	AA-	—
Foreign ownership (%)	23.91	22.01	25.54	23.91	—

U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥112=U.S.\$1, the approximate Tokyo foreign exchange market rate as of March 31, 2017.

* Free cash flow = net cash from operating activities + net cash from investing activities

We expanded sales of some products, including sales promotion tools, smart cards, and aseptic PET plastic bottle filling systems.

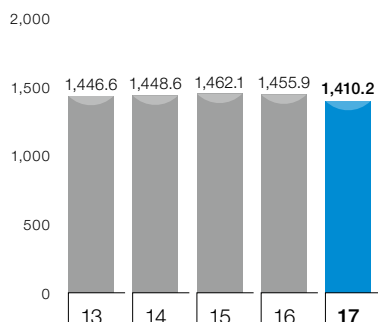
The Lifestyle and Industrial Supplies segment succeeded in boosting sales and profits, with operating income growing by 14.6% year on year.

We reaped 71.9 billion yen in net cash from operating activities, and 85.9 billion yen in free cash flow*.

* Free cash flow = net cash from operating activities + net cash from investing activities

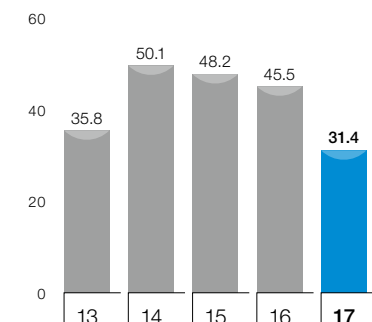
Net Sales

(¥ billion)



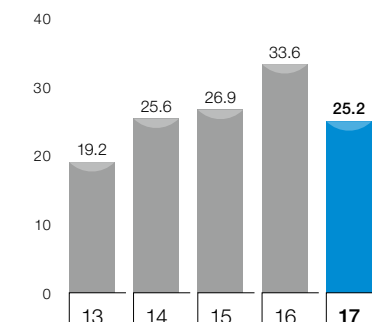
Operating Income

(¥ billion)



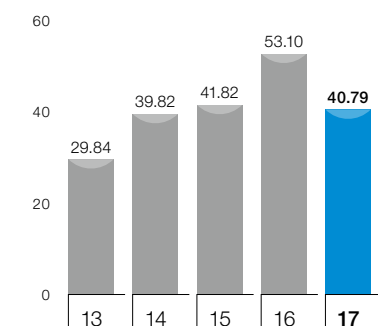
Net Income Attributable to Parent Company Shareholders

(¥ billion)



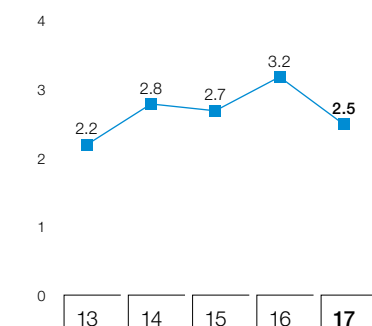
Net Income per Share

(¥)



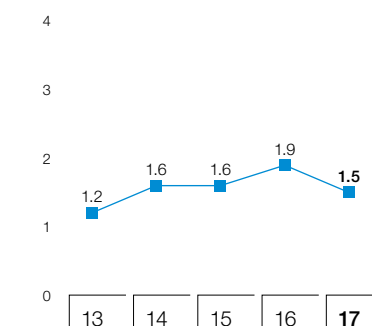
ROE

(%)



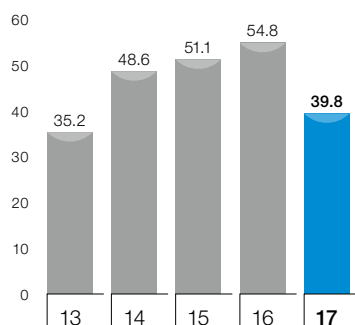
ROA

(%)



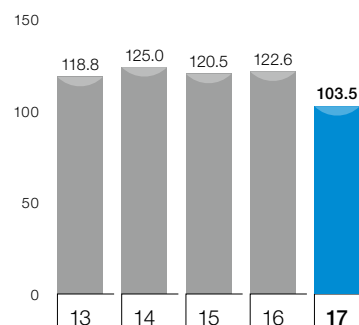
Income before Income Taxes

(¥ billion)



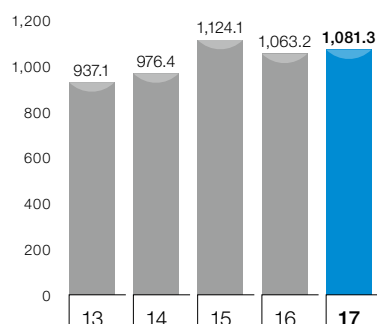
EBITDA

(¥ billion)



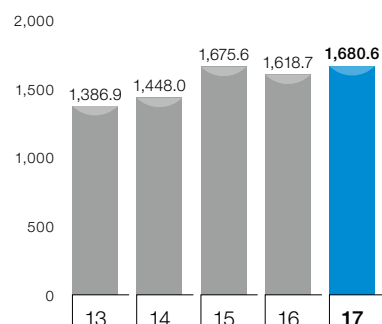
Total Net Assets

(¥ billion)



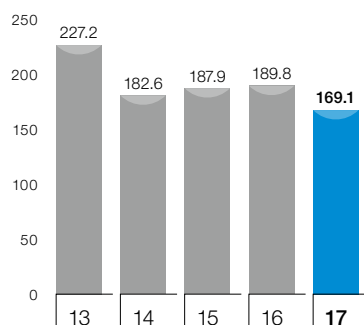
Net Assets per Share

(¥)



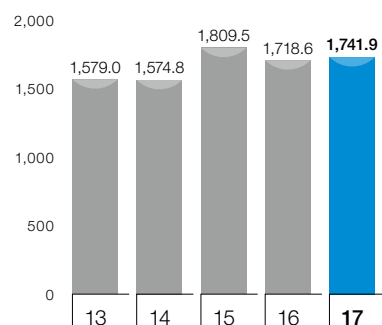
Interest-bearing Debt

(¥ billion)



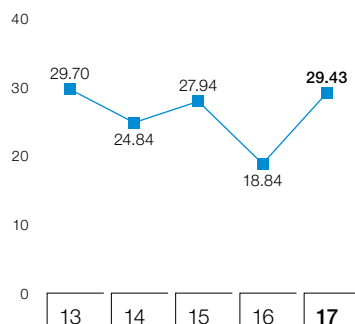
Total Assets

(¥ billion)



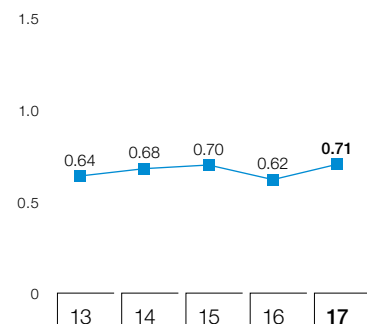
PER (Price Earnings Ratio)

(times)



PBR (Price Book-value Ratio)

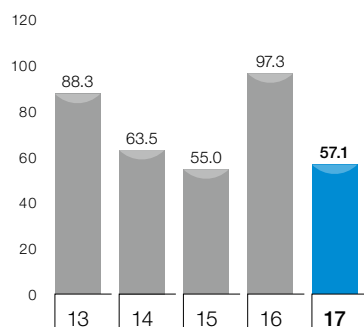
(times)



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Capital Expenditures*

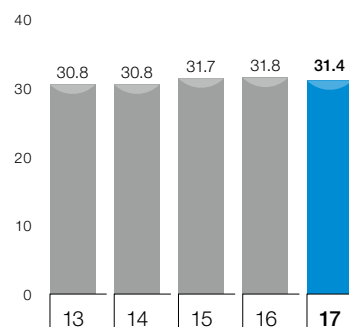
(¥ billion)



* Figures include capital expenditures for intangible fixed assets.

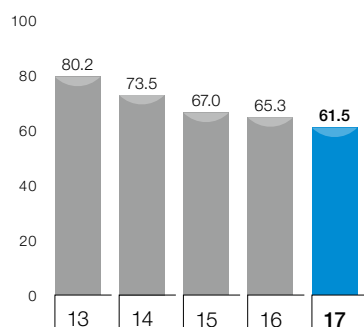
Research and Development Expenditures

(¥ billion)



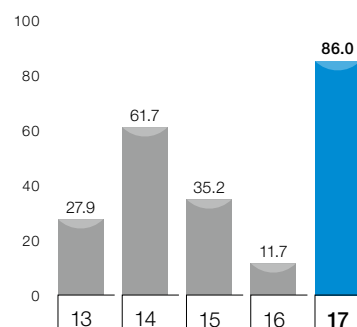
Depreciation Expense

(¥ billion)



Free Cash Flow*

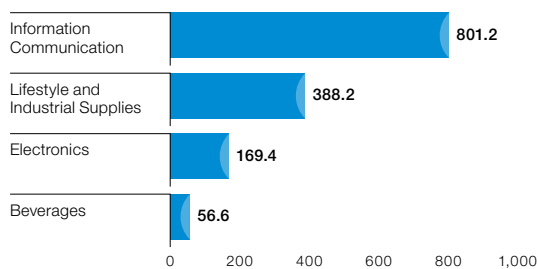
(¥ billion)



* Free cash flow = net cash from operating activities + net cash from investing activities

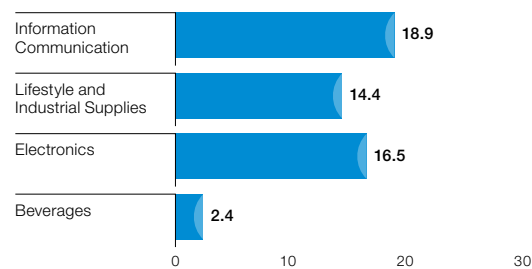
Net Sales by Segment (Year ended March 31, 2017)

(¥ billion)



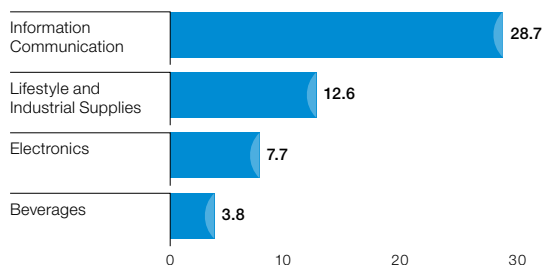
Operating Income by Segment (Year ended March 31, 2017)

(¥ billion)



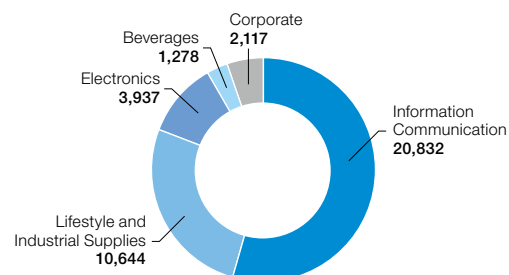
Capital Expenditures by Segment (Year ended March 31, 2017)

(¥ billion)



Employees by Segment (As of March 31, 2017)

(persons)



Message to Shareholders



We will provide new value to help solve society's challenges, mainly in our "four growth areas."

In October 2016, we celebrated the 140th anniversary of DNP's founding.

When it was established in 1876, the Company focused on letterpress printing, which was the state-of-the-art technology of the time. Since then, we have continually expanded our fields of business by applying and developing the printing technologies that are our core strengths. Now, in order to stimulate even more rapid growth amid today's dramatically changing business environment, we are undertaking new changes.

In "DNP Group Vision 2015," we identified "four growth areas" in which to focus our efforts: Knowledge and Communication; Food and Healthcare; Lifestyle and Mobility; and Environment and Energy. We selected these areas as the business arenas in which we will create new value by identifying social challenges in Japan and overseas and applying our expertise in "P&I" (printing and information) to finding solutions for them.

For example, advanced information security, enhancing education of the next generation, safe and reliable food supplies, healthy and comfortable living in various types of dwelling spaces, conservation of the environment and energy resources, respect for diversity, etc. We hope to help bring about a future in which these issues have been resolved to the point that people take these things for granted as "basics." By taking up the challenge of making such a future a reality, we want to continue to be "indispensable" to consumers and businesses.

We intend to further refine and multiply DNP's P&I strengths, and to surge ahead by exercising the comprehensive strength of the DNP Group. We will continue to work hard to earn the trust of all of DNP's shareholders and other stakeholders.

Yoshitoshi Kitajima
President



Q. What was the fiscal term through March 2017 like?

Kitajima: Our corporate philosophy is to “connect individuals and society, and provide new value”—that’s how we build DNP’s corporate value in the medium and long term. This philosophy contains our commitment to taking the initiative to find out what consumers need, and to creating new value that helps solve society’s problems. The business environment is undergoing rapid and significant changes; rather than simply responding to changes, we must work to generate changes ourselves.

Toward that end, DNP has promoted “P&I innovations” that generate innovative new value by making the most of our strengths in printing (P) and information (I) technologies. Also, in order to boost the competitiveness of our operations, the entire DNP Group engaged in structural reforms including reorganization and integration of business units and Group companies.

While we did see government stimulus measures lift employment a bit along with other signs of mild recovery in the Japanese economy, we have yet to see a full recovery given the strong yen, sluggish personal consumption, and a slowdown in overseas economies. Especially in the printing industry, factors like lower unit prices combined with decreased demand for books, magazines and other paper media forced us to remain in a very tough position.

As a result, although net sales from Lifestyle and Industrial Supplies increased in the year ended March 2017 compared to the previous year, sales from the Information Communication and Electronics segments declined, so overall net sales for the term declined 3.1% year on year to 1,401.2 billion yen. Operating income declined 30.9% from a year earlier to 31.4 billion yen, largely due to the impact of the stronger yen on earnings from our Electronics segment and from Imaging Communication, which does photo-related business in North America and elsewhere outside Japan, as well as increased retirement benefit costs resulting from the Bank of Japan’s negative interest rate policy.

On the other hand, we laid the groundwork for building corporate value in the future by making aggressive upfront investments that will allow us to generate new value.

Q. How will you achieve greater corporate value in the medium and long terms?

Kitajima: First of all, we will focus on generating value by expanding our business, primarily in our “four growth areas.” In order to achieve that, each business division will exert its comprehensive strengths in order to increase synergetic effects so the entire corporate Group can work together to seek solutions for social challenges. By doing so, we will generate new value.

We will also provide more value to the global market. We believe that the value we create through “P&I innovations” is indispensable not just for people in Japan, but for people all over the world. We will provide new value to the global market by respecting the diversity in different parts of the world and adjusting the formats of our products and services to meet those various needs.

In addition, we will continue to actively increase corporate value by means of all kinds of structural reforms. In order to enhance the profitability of existing and new businesses, we will undertake various structural reforms—including raising efficiency and reducing costs in our business operations and adjusting our business framework and operating locations—and boost the competitiveness of our businesses.

Q. What do you mean by generating value primarily in growth areas?

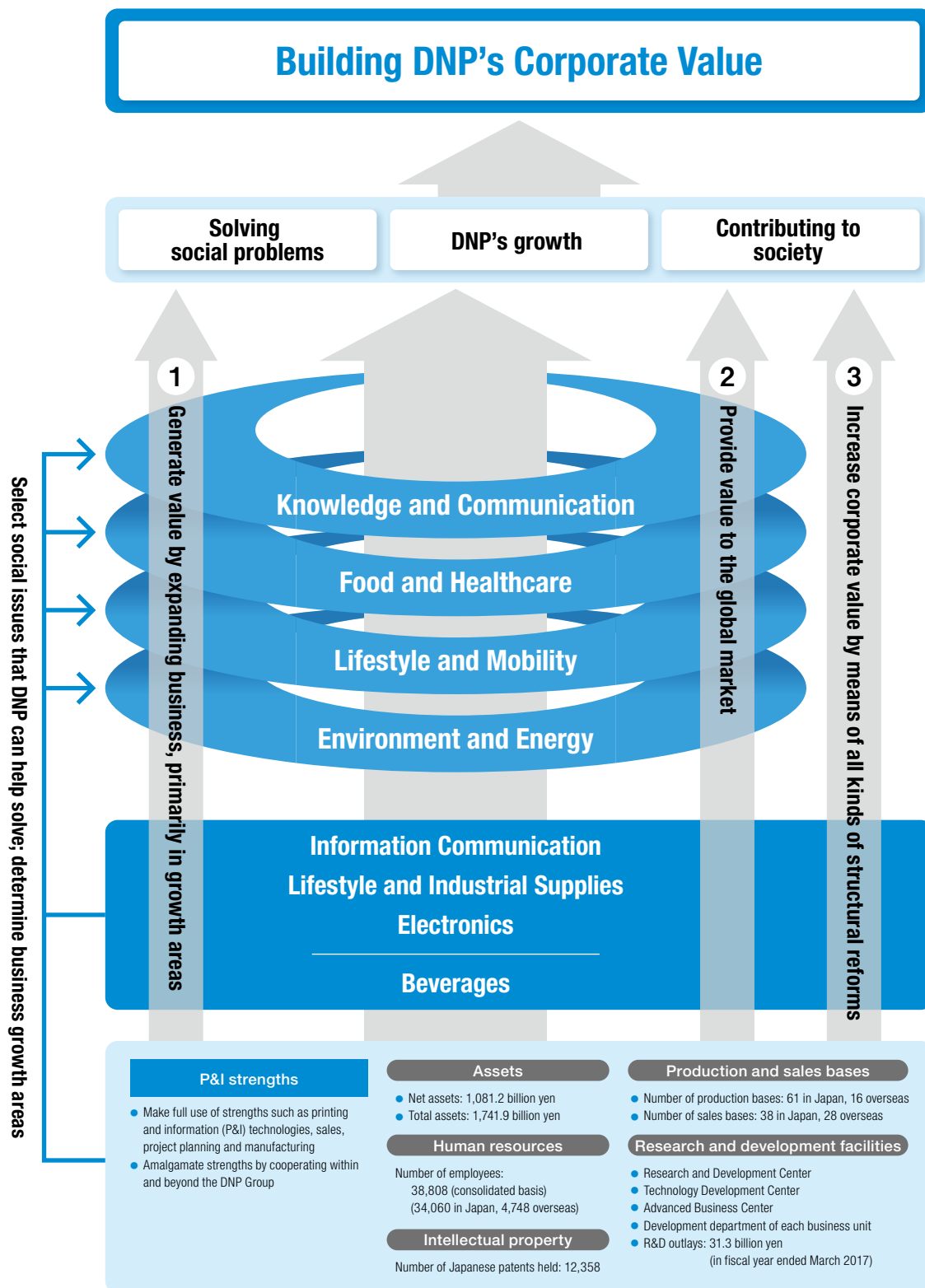
Kitajima: There are many kinds of social issues currently in need of solutions. The “Sustainable Development Goals” adopted at the United Nations Sustainable Development Summit in September 2015 lists a number of such issues, and DNP can help solve many of them by leveraging its “P&I” strengths.

By providing society and consumers with new value that leads to the solution of social problems in our four growth areas (Knowledge and Communication; Food and Healthcare; Lifestyle and Mobility; Environment and Energy), we will increase DNP’s own corporate value. Now please allow me to introduce some of our recent initiatives.

Be indispensable to individuals and society

We will continue to provide “indispensable value” to individuals and society by applying the combined strengths of DNP and our partners to the resolution of social issues that we ourselves have selected as “growth areas.”

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(As of March 31, 2017)

- In **Knowledge and Communication**, our aims are to support people's lives through active communication and to foster rich and varied culture. In addition to information media and content production, this area also relates to the creation of safe and reliable communication mechanisms supported by advanced security technologies.

Since forming capital and business ties with Nihon Unisys, Ltd. in January 2013, we have been collaborating in various ways, including strengthening the business base from which we offer marketing and other services aimed at finance and distribution companies, jointly developing various marketing platforms, and promoting global expansion. We have been especially successful together in endeavors like constructing settlement platforms using international brand prepaid and debit cards, and electronic money-related systems.

In April 2016, we started collaborating with Cybertrust Japan Co., Ltd., which specializes in electronic certification, in order to enhance our online identity verification services. In September of that year, we also entered into a capital and business alliance with Future Link Network Co., Ltd. (FLN) in order to expand our community-building business by using FLN's community information portal site and local currency points.

- The **Food and Healthcare** area is affected by dramatic demographic changes around the world including, in Japan, a rising average age and falling birth rate. Amid these changes, DNP is developing products and services that support safe, high-quality lifestyles including support for lifelong health maintenance. In addition to providing safe and hygienic packages that people can use with confidence for foods, beverages and pharmaceuticals, etc., we will continue to promote businesses related to a variety of other fields such as agricultural films, regenerative medicine and other life science-related fields. In May 2016, we agreed to a tie-up with SIG Combibloc Group AG, one of the world's leading manufacturers of cartons for food and beverages, and began working to expand business in the Japanese market. Worldwide, some 10,000 kinds of products are packaged using SIG systems. Japanese food and beverage manufacturers have responded very positively to the SIG packaging because it can be made in unusual shapes rarely seen in Japan, which will make it easy to differentiate products on store shelves, and because the cartons can be filled with a wide variety of contents. We hope to start full-scale production in the spring of 2018. We started mass production of "Innovative Barrier (IB) film," a highly transparent film with excellent barrier properties, in 1998. We use it mainly for food packaging, and for a wide range of other applications. We are working to build on these achievements by

promoting the development of new products like film for curveable OLED displays and high barrier films for industrial use.

- Concerning **Lifestyle and Mobility**, we will continue to provide products and services that deliver very comfortable, safe, secure living in a variety of settings including homes, commercial facilities, offices, medical facilities, automobiles and railroad cars.

For the automotive market, for example, in addition to decorative films with the wood grain and other designs that we have long supplied for auto interiors, we have developed new products with excellent functionality. These include "DNP ultra weather-resistant hard-coat transfer film," which improves the weather resistance and wear resistance of resin glass, a lighter-weight alternative to ordinary automotive glass that helps reduce energy consumption by reducing auto body weight, and "DNP adhesive films" that strongly bond together different materials, such as carbon fiber-reinforced plastic with metal. In addition, DNP Tamura Plastic Co., Ltd. has won a large share of the Japanese market for side visors attached to the top edges of automobile side windows. We intend to develop new products by combining DNP Tamura's expertise in resin molding with DNP's strength in decorative technologies and functional films.

- In **Environment and Energy**, we are working to realize a sustainable society that simultaneously supports economic development and preservation of the global environment. We intend to work harder than ever to develop environmentally conscious products and services that will help conserve resources and energy and lead to the preservation of biological diversity. In February 2017, DNP received the 26th Grand Prize for Global Environment Award, Japan Business Federation Chairman's Prize in recognition of achievements like DNP Lighting Film, which conserves energy by effectively reflecting and diffusing sunlight entering a window to brighten an entire room. DNP Lighting Film can be used in various settings including residential, office, commercial or medical facilities and schools, etc. and can be applied during renovation as well as new construction. As a test, DNP Lighting Film was applied to laminated glass used in windows installed on the northern side of a building, where there was little sunlight. The brightness of the room roughly doubled compared to what it was before applying the film^{*1}, and the cost of electricity required for lighting declined by about 13%^{*2}. In energy-related business, DNP already controls a large share of the world market for lithium-ion rechargeable battery components. In addition to enhancing the functionality of our photovoltaic module components, we will work harder to accommodate demand related to smart houses and smart cities.

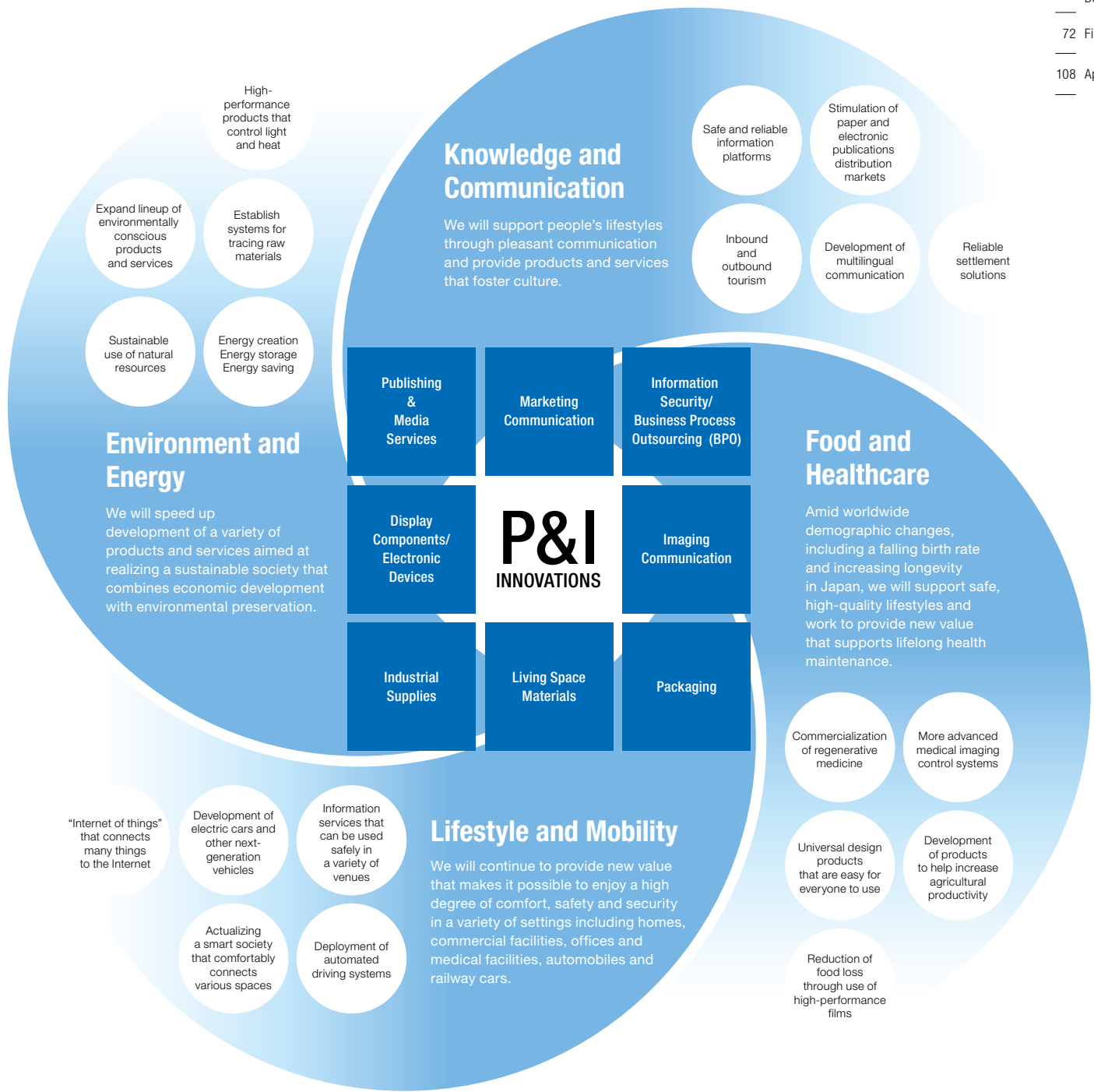
^{*1} Study conducted by DNP: maximum values measured between 9 am and 6 pm on June 5, 2015

^{*2} Study conducted by DNP: measured between 9 am and 6 pm on July 2, 2015

Making “tomorrow’s basic” a reality by generating new value in our four growth areas

What kinds of social challenges does the world face today? We identified four growth areas by asking ourselves this question. We will continue to make use of the printing and information (P&I) technologies that are DNP’s core strengths in order to create new value that will contribute to solving social challenges in these areas.

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Q. How will you provide value to the global market?

Kitajima: DNP provides the value that it creates not only within Japan, but in a broad variety of locations around the world.

As of the end of March 2017, DNP operated 28 sales bases and 16 manufacturing plants in 15 countries and a region in North America, Europe, Asia and elsewhere. Whenever we branch out overseas, we respond meticulously to the characteristics of each region and the needs of the people who live there.

Let me offer some examples of our overseas operations. We are boosting the competitiveness of our smart card business in Southeast Asia by forming operational and capital alliances with major card manufacturers in Vietnam and Indonesia. In Packaging, we will use our operating bases in Indonesia and Vietnam to expand operations in Thailand, Myanmar and other surrounding countries so that we can better serve global corporate clients. Our Imaging Communication business, which mainly handles photographic printing supplies, also earns a high proportion of its net sales from overseas. In North America, where there is strong demand for photo printing, we are focusing on securing new customers by making the most of our two local manufacturing bases. At our Malaysian plant, too, we will increase production aimed at the photo ID card market.

Our Electronics segment will keep working to further expand sales of metal masks for making OLED displays, a field where we already control the overwhelming majority of the world market, and to collaborate with overseas companies, for example by licensing technologies related to color filters used in liquid crystal displays. In order to respond appropriately to growing demand for semiconductor photomasks in China, we established a joint venture photomask manufacturing and sales company there in partnership with Photronics, Inc. of the U.S. The new company plans to begin mass production in December 2018.

Q. It seems that you are also initiating various structural reforms.

Kitajima: We are investing a great deal of effort in various structural reforms aimed at building corporate value by expanding our businesses and reducing costs, etc. We are reviewing our business portfolio from the standpoints of growth potential and profitability, and implementing business structure reforms such as organizational restructuring, consolidation and M&A strategies.

For example, in April 2016 we consolidated multiple business units in charge of marketing and information security-related functions and launched one new business unit that combines all of their strengths. In October of the same year, we merged three Group companies that handle functions like marketing or information media project planning and production, and established DNP Communication Design Co., Ltd. Then in April of 2017, we launched DNP Digital Solutions Co., Ltd. in order to strengthen development and operation of information-related systems. Through solid cooperation between the new business unit and these new companies, we intend to promote integration of marketing and settlement services, bolster the competitiveness of our information and communication technologies and business process outsourcing businesses, and construct new business models.

In addition, we continue to engage in cost structure reforms aimed at improving profitability. For example, we are promoting production innovation initiatives aimed at improving production efficiency by achieving optimal production through the realization of a nationwide, uniformly managed manufacturing framework, and by implementing digital technology-driven “smart factory” ideas.

Q. People are looking for activities that emphasize the environment, society, and corporate governance (ESG), aren't they?

Kitajima: Since before ESG became a buzzword, DNP was already actively involved with the environment and society and has always engaged in a variety of corporate activities in parallel with enhancing our corporate governance.

First, regarding the environment, DNP's business activities benefit from nature's abundance in a variety of ways, such as procurement of raw materials from forest resources and the use of water and energy in our manufacturing processes. That's why we are always thinking about how to coexist with the global environment and seek to operate sustainable businesses.



Concerning society, we build trust with our many stakeholders by engaging in honest, good-faith corporate activities. In addition, as I explained earlier, we work to expand our business by solving environmental and other social issues related to our four growth areas.

In regard to governance, we construct and implement systems for making decisions that support appropriate and comprehensive management, for appropriately and promptly conducting business based on those decisions, and for supervising the functions I just mentioned. In June 2016, we determined to make a smaller board of directors in order to speed up management decisions so we can keep pace with the rapidly changing business environment. Accordingly, we reduced the number of directors by six from 18 in the previous year, giving us a total of 12 directors including two independent (outside) directors.

DNP has received a great deal of praise for these types of ideas and initiatives, from general society as well as from investors. For example, DNP has been included in many indices of socially responsible investments, most notably the FTSE4Good Global Index for 17 consecutive years, and the Dow Jones Sustainability Indices (as of July 2017). Selection for these indices is based on information disclosed by the Company through various reports and websites, etc., as well as on independent research. DNP is highly regarded for, among other things, promptly and properly disclosing both financial and nonfinancial information.

Q. DNP has become an official partner of the Olympic and Paralympic Games Tokyo 2020, hasn't it?

Kitajima: We view these Games as important opportunities from a business as well as social standpoint, so we became an official partner* in October 2016.

For the Olympic Games Tokyo 1964, DNP took charge of printing Games tickets, commemorative stickers, and posters. For the Olympic Winter Games Nagano 1998, we were responsible for issuing accreditation (ID) cards and supported the operations of the Games by providing a variety of products and services.

Based on these experiences, we would like to provide various types of support for the success and smooth operation of the Olympic and Paralympic Games Tokyo 2020. These may include printing services that make use of advanced anti-counterfeiting technologies, by which we can produce Games tickets, accreditation cards, and various kinds of announcements needed to generate excitement for the tournament, as well as operational skills and services. We will also increase cooperation with other official corporate partners.

* DNP is an Official Partner (Printing Services) of the Olympic and Paralympic Games Tokyo 2020.

Q. What are your thoughts regarding shareholder returns?

Kitajima: Our basic policy is to pay stable dividends while taking into consideration business performance, dividend payout ratio, and other relevant factors.

At the same time, we support future business development by using retained earnings to enhance our financial constitution and strengthen our management base. We allocate retained earnings for such purposes as investment in research and development of new technologies and new businesses, capital investment, and strategic alliances, mergers and/or acquisitions, etc., that enable us to actively create new businesses. We also keep our eyes on our funding requirements and market trends as we consider whether to repurchase treasury shares as a means of returning profits to shareholders.

Historically, we increased our annual dividend payout each year for six consecutive years, from 18 yen in the fiscal term ended March 2003 to 36 yen in the term ended March 2008. In the fiscal year ended March 2009, the year in which financial crisis followed the collapse of Lehman Brothers Holdings Inc., we reduced the payout by 4 yen to 32 yen, and we have maintained our annual dividend payout at 32 yen for nine consecutive years through the year ended March 2017.

DNP repurchased treasury shares for seven consecutive years from the fiscal term ended March 2003 until the term ended March 2009. We also did so in the fiscal terms ended March 2016 and 2017, resulting in the retiring of a total of 141.31 million shares, or 18.6% of the total number of issued shares. In the fiscal year through March 2018 we plan to continue this trend and retire up to 15 million shares worth up to 15 billion yen.

DNP positions the return of profits to our shareholders as an important management responsibility, and I hope that shareholders will understand the Company's policies and perspective in this regard.

Going forward, we will be grateful for continued guidance and cooperation from all of our shareholders.

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P&I

Innovations

Special Feature:

Today's Innovation is Tomorrow's Basic P&I Innovations

DNP strives to provide new value that will help solve society's challenges, primarily in four growth areas: Knowledge and Communication; Food and Healthcare; Lifestyle and Mobility; and Environment and Energy.

The "Sustainable Development Goals" adopted by the United Nations lists a number of the challenges for which corporations and other entities around the world are being asked to look for solutions. DNP will meet those challenges by refining and synergizing the strengths in printing and information technologies that we have been cultivating over the course of our 140-year history.

This Special Feature section contains a message from our management and examples of cutting-edge DNP projects, in order to introduce "P&I innovations" that generate innovative value by making use of all of DNP's abilities, including in areas like sales and project planning, manufacturing and production control, intellectual property and branding, in addition to our core technological strengths.

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P&I Innovations

We create new value
with P&I innovations.



**Toshiki
Sugimoto**

Senior Corporate Officer
Research and
Development Center

DNP has created many products that command top market share by using our core technologies: “Printing and Information technologies” that we have developed since the foundation of the company in cooperation with companies around the world. We will continue to develop a variety of products and services that will become “basics” of everyday life in the future.

DNP’s capacity for technological development is what has enabled the expansion of our business areas

While the industrial structure in Japan has changed dramatically since DNP was founded, we have succeeded in expanding into a wide variety of industrial fields. For example, by widening the range of materials on which we print, from printing paper to cardboard, plastic films, cloth, metal plate, glass and more, we have been able to develop and supply a wide variety of products.

Until supermarkets started appearing in the 1950s, many products were sold by weight at retail shops, but this system all but vanished with the start of pre-packaged product distribution. This trend in turn gave rise to demands for colorful packages, mostly for processed foods, cosmetics and household items, that would not only preserve their contents in a hygienic manner but also stimulate consumers’ desire to purchase upon being noticed at the store, and DNP’s packaging operations contributed to making such packages popular. During the period of rapid economic growth in Japan, DNP supplied interior materials printed with wood-like textures and patterns as the housing supply was expanded. Today, DNP’s “printing” can be found on a large number of items that are used in everyday life.

Photolithography, one of the techniques used for preparing printing plates, could also be used for making precise patterns required for manufacturing many electronics products. In 1958, we succeeded in producing shadow masks, components that were essential for manufacturing cathode ray tubes used in color televisions. DNP then contributed to the spread of Japanese-made color televisions by mass-producing shadow masks. Since then, we have provided a number of important components, such as color filters for liquid crystal displays (LCDs) and deposition masks used in the manufacture of organic light-emitting diode (OLED) displays. We also utilized photolithography in the manufacturing process in the

semiconductor field, and further developed it as a technology for manufacturing integrated circuits and also large-scale integrated circuits (LSIs). Today photolithography is the basic technology of “nanotechnology” that enables us to operate at the nanometer (1 billionth of a meter) level.

DNP was also one of the first printers to introduce digital technology in its printing production processes; in the early 1970s, we started working on computerized typesetting systems (CTSs) for prepress processes. After that, we constructed advanced systems capable of rapidly processing large amounts of text and image data that enabled us to promote digital media such as CD-ROMs, DVDs, and websites. Once digitized, all kinds of information can be processed in a variety of formats including printed paper materials and electronic books. DNP’s competency in handling both paper and electronic media is an advantage that we use in such businesses as multi-format publication planning and production, and development of our “honto” hybrid bookstore network that links online and in-store sales of paper and electronic books. Meanwhile, increasing digitization and networking have led to the need for a higher degree of information security. In addition to printing holograms and other anti-counterfeiting devices on smart cards and other products, DNP has been focusing on reinforcing security related to various types of software applications and networks.

In addition, we are working on more ways to use the advanced image processing technologies that we have developed through printing services in order to enrich people’s lives, for example, by applying them to the life science field. These are some of the ways in which DNP has expanded its business areas by valuing, refining and synergizing technologies in order to seize new business opportunities.

Promoting P&I innovations —Providing new value by taking the initiative to solve social challenges

As shown in the diagram of basic printing processes on pages 20-21 of this report, “Project planning and design” processes relate to “Information processing” capabilities; “Microfabrication” techniques used for preparing printing plates lead to the development of “Precision coating” technologies, i.e. the application of thin layers of ink or other substances, and “Post-processing” technologies for making products in easy-to-use formats are related to commercialization of final products. DNP takes the various technologies involved in these printing processes, refines them and creates synergies by combining them with state-of-the-art technologies from fields such as material development, evaluation and analysis, “Kansei (sensitivity) analysis,” brain science, the Internet of things (IoT), and artificial intelligence (AI).

As one of the very few comprehensive printing companies in the world, DNP possesses an abundance of top-class technologies and capabilities related to printing (P) and information (I). Our goal is to create innovative new value that solves social problems by flexibly combining these P&I-based strengths with other capabilities including sales and project

planning, manufacturing and production management, intellectual property and branding. In our “DNP Group Vision 2015,” we call these solutions “P&I innovations.”

Smart cards provide a good example of how this process can work. A smart card is a plastic card with an embedded IC chip. In the 1970s, DNP launched a “P” business of printing on plastic cards. From the 1980s, we started adding “I” value related to smart card development. For example, we developed all types of software needed for safe financial transactions. After receiving outsourcing contracts from financial institutions, we started handling card issuance processing including encrypting customer information, writing that information onto IC chips, and mailing a card to each customer. In other words, we developed this business into a diverse set of outsourced business processes. In addition, we began offering merchants who accept international brand cards like VISA, Mastercard and JCB, a platform for prepaid electronic settlement services as an alternative to payment by credit card. DNP has created a large number of innovations through these types of sophisticated combinations of “P” and “I” technologies.

DNP technologies give rise to new value

Realizing a more convenient society for consumers

As an example of how DNP creates new value, let us introduce a recent development related to distribution and sales promotion, whereby DNP serves to connect retail stores and consumers.

After starting with paper media such as newspaper inserts and product brochures, our sales promotion-related business branched out to include advertising and distribution of promotional campaign information and coupons, etc., through websites accessed via smartphones or other information devices, for e-commerce as well as more traditional sales. In recent years, as lifestyles have become more diverse, advertisers no longer seek to deliver the same information to everyone at once, but rather to transmit personally optimized information at the best time for each individual. In order to do so, it is necessary to understand the behavior of individual consumers. DNP has synergized big data with artificial intelligence (AI) technologies like deep learning in order to develop its “diip digital marketing platform,” a service that systematically analyzes and utilizes information related to consumer behavior.

The “diip” service quickly aggregates data related to consumers’ behavior at both physical and online stores and businesses. It then uses sophisticated functions to analyze those data, to determine the most appropriate types of information for each person—including the most suitable products—and to deliver the information via a combination of paper and digital media at optimal times according to each person’s lifestyle.

For safe and reliable communication

At the same time that the importance of information in society is rapidly increasing and IoT and AI usage are becoming more widespread, risks related to cyber-attacks and various Internet crimes are also becoming more serious. In response to this growing risk, there is strong demand for secure and pleasant communication. As it works to provide solutions that meet this demand, DNP is employing technologies and expertise related to advanced information security, digitization and networking.

Based on our recognition that safety is essential for the IoT, our goal as we work to develop the systems and services necessary for a high level of information security is to achieve an “Internet of Secure Things” (IoST). For example, in addition to using authentication and encryption technologies that we have developed in our smart card business to protect various types of IoT devices from unauthorized use, DNP also provides “CrackProof” software that protects applications from a variety of risks including hacking and analysis aimed at reverse engineering. As part of our comprehensive information security business, in 2016 we established Cyber Knowledge Academy Co., Ltd. to train people to handle cyber-attacks against corporations. The academy provides a training environment that enables trainees to acquire, maintain and upgrade the skills they need to be able to respond to previously undiscovered new cyber-attacks.

Manufacturing to evolve people's lifestyles

Next we'd like to introduce examples of technical innovations related to manufacturing.

In order to display an image by using liquid crystals, we must use "orientation technology" to form the liquid crystal materials so they will be aligned precisely in an arbitrary direction. In order to exhibit high-level optical performance on thin and flexible film substrates, we have developed novel precision coating technology and new materials that enable liquid crystals to be aligned accurately.

We are using these technologies to develop products like retardation films that correct the coloration of OLED displays, and dimming windows that control the amount of transmitted light without the use of mechanical blinds.

Supporting lifelong health maintenance

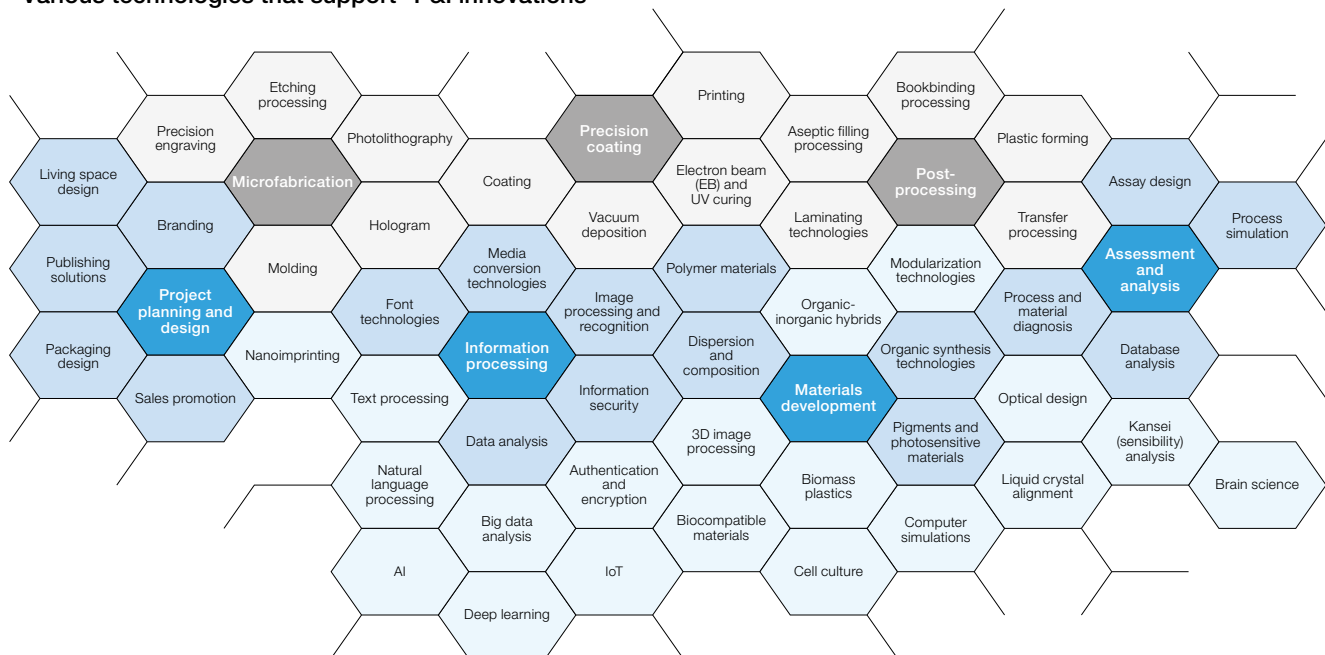
DNP started to expand its business area into the life science field about 10 years ago, by sending some researchers to a university hospital that was conducting advanced research in regenerative medicine and other state-of-the-art areas. At the time, not a few people seemed to think it was rather strange for a printing company to begin doing medical research. However, in regenerative medicine, there is a need for cell-culturing dishes that enable various kinds of cells to be cultured uniformly, or to be cultured in specific patterns, or to be peeled off in sheet form from the dish. DNP has been able to meet these demands by processing the surface of cell-culturing dishes using microfabrication and surface processing technologies that we developed through

our printing business. In addition, we were able to establish a pathway for the development of culturing vessels of the quality required to make regenerative medicine practical.

Furthermore, as printing processes, including information processing, have become increasingly digitized and networked, we have been investigating the potential of various information processing technologies that DNP has developed to be used in medical imaging and medical information systems. Together with PSP Corp., with which we established a capital and business alliance in December 2014, we are developing a medical image management system called Picture Archiving and Communication System (PACS), and working to develop systems that automatically analyze X-rays, CTs, MRIs and other images to support diagnosis of breast cancer and other diseases. In addition, DNP is promoting a remote medical imaging diagnostic support business that uses IT to transmit images recorded at regional hospitals or clinics to radiologists in remote locations and to return diagnostic reports from the radiologists to the requesting facility.

Although we have already produced some impressive achievements through our P&I innovations, DNP's P&I technologies still have more tremendous potential. By considering social problems that consumers face in their daily lives and working hard to solve them through one innovation after another, we believe that we can create a safe and secure society where people can live pleasant and comfortable lives. We intend to continue creating new value by enhancing and synergizing our P&I strengths.

Various technologies that support "P&I innovations"



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Expanding DNP's Business Areas by Applying and Developing Technologies

DNP is one of the largest comprehensive printing companies in the world. We provide a variety of products and services in a wide range of business areas to consumers and some 30,000 corporate clients in Japan and around the globe. DNP's main strengths are the printing and information technologies that it has cultivated since its founding in 1876. The Company has used these technologies to branch out from book, magazine, and commercial printing into diverse fields including packaging, decorative materials, display components, and electronic devices, and has developed many products in which it holds the world's largest market share.



* C for cyan, M for magenta, Y for yellow, K for "key plate" (black)

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Effectiveness assessment

Product delivery

Printing Processes

Publication printing

Binding and post-processing

Collate and bind printed pages together to form books.

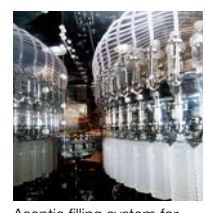


Printing

Wrap plate around roll, supply ink, and perform high-speed, high-precision printing.



Biomatech® biobased packaging materials



Aseptic filling system for PET plastic bottles



Pouch for lithium-ion rechargeable battery



Printing inspection equipment for printed materials

Post-processing

Form into easy-to-use shapes

Stabilize development quality of aseptic filling systems and other packaging products; improve productivity

- Bookbinding processing
- Aseptic filling processing
- Plastic forming
- Laminating technologies
- Transfer processing etc.



Transparent barrier films

Precision Coating

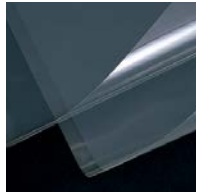
Apply a thin, uniform layer of ink

Combine material design with technologies like film thickness control, multi-layering, and surface processing in order to provide functionality

- | | |
|------------------|------------------------|
| Printing | Coating |
| EB and UV curing | Vacuum deposition etc. |



Dye-sublimation thermal transfer printing media



Anti-reflection films



Residential interior materials (floor coverings)

IoST[®] Technologies

Information security initiatives aimed at helping society use the IoT safely and reliably

The “Internet of Things” (IoT) is a world in which many things have built-in sensors and connect directly to the Internet so that they can collect and exchange information. As use of the IoT becomes more widespread, it is becoming increasingly likely that lifestyles and business styles are about to radically change. Along with hopes for a more comfortable future comes increasing risk of global-scale cyber attacks. With cyber attacks becoming more organized and more sophisticated, corporations and public entities have been hit by shutdowns of their information systems, information theft, and other problems arising from security breaches.

That is why DNP has set to work to solve social problems related to information security; we aim to make the “Things” of the IoT “secure,” i.e. to make it an “Internet of Secure Things” (IoST[®]).

Improving device security by using technologies that we cultivated in our smart card business

Cryptographic protocols like SSL (Secure Sockets Layer) and TLS (Transport Layer Security) have been used for years to encrypt data transmitted by Internet as a security measure for e-commerce and other online services. However, we do not yet have adequate security measures for handling data exchanged with IoT devices.

DNP is working to address this problem and improve the security of IoT devices by embedding in them an IC chip that incorporates the same high level of security used for smart



cards. Using this IC chip to safely store important data, such as electronic certificates, individual IDs used for personal authentication, and data encryption keys, will guard against malicious outsiders seeking to tamper with or illicitly acquire data, or to impersonate a legitimate user.

DNP became one of the first in its industry to enter the smart card business in 1981, and it was through developing smart cards that DNP cultivated the abilities necessary for solving this problem. In addition to the counterfeiting prevention technologies that we had already developed in order to safely print and process stock certificates, cash vouchers, and other valuable certificates, we had to develop technologies for securely managing networked data as we have continued to lead the domestic smart card market from its inception: for example, we developed smart card operating systems and applications, we developed and operate card issuance processing systems, and we manage the online transmission of card-related data. According to our own research, DNP currently controls about 55% of the Japanese

Kunimitsu Sato

Deputy General Manager
Communication & Information Center
Information Innovation Operations





market for credit cards (in terms of the number of cards produced) and about 80% of the market for cash cards (in terms of the number of orders received). DNP produces about 150 million smart cards per year in Japan. We have applied the strengths we acquired through our smart card business to the construction of advanced personal authentication technologies for use in a wide variety of information platforms including SIM cards used in smartphones. Now we intend to extend our reach further, to the IoT.

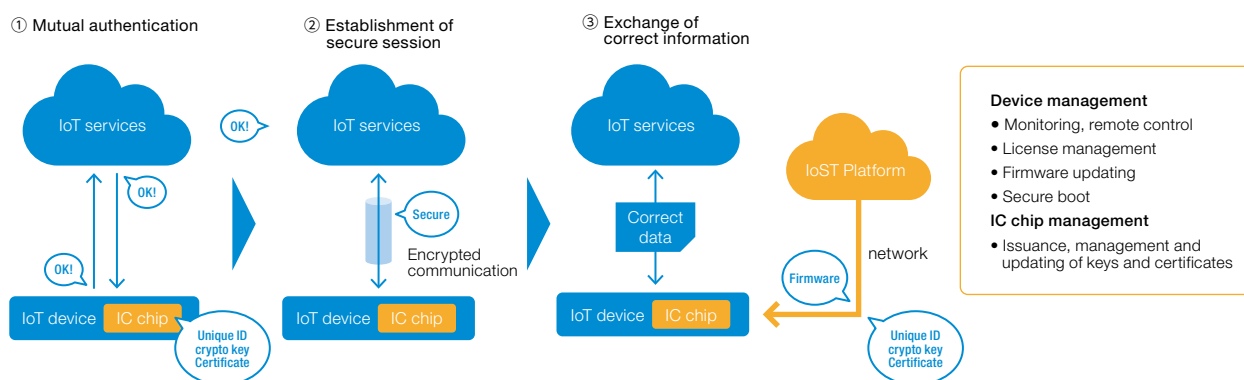
| DNP's "IoST Platform"

In the future, the number of IoT devices is expected to increase sharply, climbing as high as 50 billion units worldwide by 2020 according to a forecast by Cisco Internet Business Solutions Group. With the advent of the "IoT society," in which many of the devices that surround us in daily life will

become contact points for information exchange, information security is becoming more important than ever.

In answer to this growing need for information security, DNP proposes to create an "Internet of Secure Things" (IoST). Based on our awareness that information security is vital to the IoT, DNP will focus on developing products and services for the secure version that we call the IoST.

By utilizing the information processing and security technologies that we cultivated through the development of smart cards, DNP's "IoST Platform" will appropriately expand the scope of IoT applications while solidly protecting information pertaining to companies and private citizens. By creating a secure information infrastructure that safely and securely connects cloud environments and IoT devices, we intend to support a society that can truly enjoy the convenience of the IoT.



Electron Beam (EB) Technologies

Approaching technology with the consumer in mind —Taking our environmentally conscious floor coverings to world markets

Electron Beam (EB) coating technology is one of DNP's core technologies. It allows us to instantly improve the durability of resins and coating films by exposing them to electron beams. We use this technology in the development of highly scratch-resistant, abrasion-resistant, and soil-resistant decorative sheet used as building material. Amid increasing awareness of the need to protect our global environment, DNP set about to develop decorative floor coverings made with environmentally conscious resin films.

Using EB technology to develop environmentally conscious decorative sheet

A wood grain pattern emerges gradually as layers of color are overlaid in stages on resin film. In the mid-1990s, polyvinyl chloride (PVC) film printed with wood-grain patterns was widely used as decorative sheet in the Japanese building industry. However, as plasticizers used in the manufacture of this sheet, as well as hydrogen chloride gas, dioxin, and other substances generated during burning of the sheet, were found to have damaging effects on the global environment and on people's health, the development of PVC-free products became a hot topic.



Polyolefin is a kind of plastic that turns into mainly water and carbon dioxide when burned completely, with no hydrogen chloride or dioxin released. However, polyolefin film was problematic in that it is less durable than PVC film. By employing EB technology, it became possible to use polyolefin as PVC-free decorative flooring that resists scratches, abrasion, and dirt. According to our research, DNP currently controls about 60% of the Japanese market for composite flooring sheet made with PVC-free surface material. Composite flooring—consisting of decorative sheet laminated onto the surface of a base material (generally plywood or laminated timber)—is less susceptible to the sunburn or cracking that may appear in natural wood floors as they age. Choosing composite flooring also makes it possible to obtain a desired quantity of flooring with a consistent color and pattern.

Demand for this type of environmentally conscious flooring material is now growing in parts of the world where there is a strong awareness of the need to preserve the global

Ichiro Kawahata

General Manager
Development Division
Living Space Operations



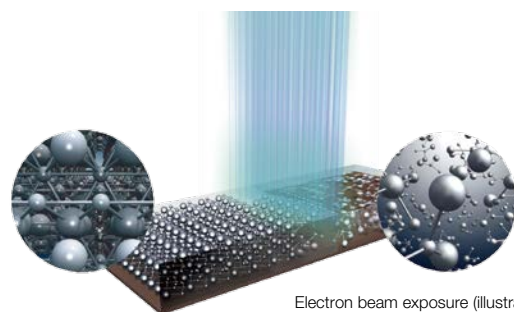
environment. However, flooring developed to Japanese specifications will not necessarily pass muster in other parts of the world. Especially in places like Europe or North America, where people wear shoes inside the house, a higher degree of resistance to scratching and wear is required compared to what suffices in Japan, where people generally do not wear shoes inside their homes. With that in mind, DNP first studied living environments and lifestyles in Germany and other European countries, investigated flooring material requirements, and employed EB technology to meet the flooring quality standards established by the European Union. As a result, in 2015 a number of European companies began to use DNP's PVC-free decorative sheet for flooring, and today it is sold in every European country. Sales of DNP's EB products are also growing within Asia, and the distribution area is expanding. For example, EB products were introduced for sale in South Korea in 2016.

With full attention to both functionality and aesthetics, we ventured into Europe, the land of cutting-edge interiors

In order for our highly durable, environmentally conscious decorative sheet to be accepted all over the world, we need continuous technological innovation along with novel ideas for making wood grain and other aesthetic designs. People tend to choose flooring materials based first of all on appearance. DNP's surface design experts work the surface of the natural wood that we use as our "original manuscript" until it is smooth and polished, coat it, scan it, and use that data as the basis for designing natural wood grain patterns that evoke a

pleasant sense of rhythm and balance in the eye of the viewer. Even among wood grain patterns, there are fashion cycles and fads. A few years ago, flashy designs with large knots were popular, whereas more recently lacy, elegant patterns are in favor. One of DNP's specialties is the fabrication of natural wood-like textures ranging from delicate, smooth surfaces to uneven surfaces with relief features.

DNP attaches a good deal of importance to the European market as a leader in global design trends. Adoption of our products in Europe gives us a good foothold from which to enter other international markets. Going forward, we plan to expand our lineup of more specialized designs with niche market appeal that European manufacturers are not equipped to handle, such as stone-like or metallic-looking textures for use in high-end products. In order to expand our PVC-free decorative sheet and other Living Spaces businesses, DNP will continue to build the brand value of its products and take on the challenge of entering world markets.



Electron beam exposure (illustration)

Film Technologies for OLED Displays

DNP technologies support organic light-emitting diode (OLED) displays —the next-generation electronic display

OLED displays offer excellent color reproduction compared to liquid crystal displays. Also, because they are based on self-luminescent organic substances that can deliver high-performance from a simple structure, many people consider them to be innovative components that will enable production of lighter, thinner, more energy-efficient devices. Another reason OLED displays are attracting attention as the next-generation display is the expectation that in the future they will enable the production of bendable and curveable products.

Metal masks supplied by DNP are essential to the production of an OLED display's core. DNP also produces and sells specialized films with optical functions that make OLED displays even more appealing to the eye. To make these optical films with their specialized functions, DNP employs the liquid crystal coating technologies that it developed by synergizing materials technologies with precision coating technologies that it has cultivated over the course of many years.

Expansion of the OLED display market and the new value that DNP provides

OLED displays are being heralded as the next-generation display to follow liquid crystal displays.

Because these innovative displays can emit their own red, green, and blue light by means of special elements composed of an organic substance, they can deliver much better color reproduction and contrast compared to displays made with the currently prevalent liquid crystal technology.



Because of these advantages, usage of OLED displays is increasing in a wide variety of settings, from digital signage seen on street corners to large-scale televisions, smartphones and even small wearable devices.

With OLED displays already in use in advanced smartphones worldwide, the global market for OLED panels made for smartphones is expected to reach 18.6 billion U.S. dollars in 2018, representing a 75% increase over 2015 and exceeding the 17.6 billion U.S. dollars forecast for the 2018 LCD smartphone panel market according to research by IHS Inc.

OLED displays also have disadvantages: their contrast can decline markedly as a result of reflected sunlight or other external light, and the colors they display appear differently when viewed from a diagonal position. To eliminate these drawbacks, DNP has developed a special optical film. DNP

Koichi Mikami

General Manager
5th Development Division
Fine Optonics Operations



first made this film—called “retardation film” for OLED displays—by using a special liquid crystal material developed in-house together with DNP’s proprietary precision coating technologies. Today, DNP’s retardation film is used in a large number of international brand smartphones and televisions.

Making the most of our strengths in various printing technologies to support the future evolution of OLED displays

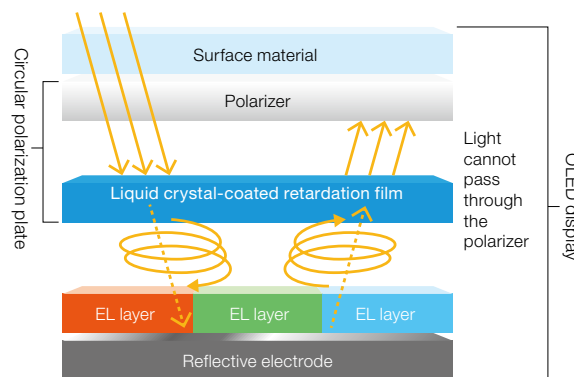
Based on the various technologies we have cultivated through our printing business, DNP has developed products aimed at helping make OLED displays more popular.

Manufacturing OLED displays involves lining up light-emitting elements made of organic material to form ultrafine patterns. Essential to this process are ultrahigh-precision products called “metal masks,” which are made using DNP’s proprietary microfabrication technologies. After we undertook to develop these metal masks in 2001, it took many years of trial and error before we were able to introduce metal masks that can support the high performance of today’s OLED displays.

From the beginning of the 2000s, we continued to refine the specialized coating technologies required in order to uniformly align liquid crystal on film. We were first able to show the value of this type of specialized film in the manufacturing of 3D liquid crystal televisions. Later, with the emergence of OLED displays, we developed our liquid crystal coating technology even further, leading to the successful production of our retardation film.

In addition to OLED displays’ high performance in terms of color reproduction capabilities, there are also expectations that in the future it will be possible to develop applications requiring flexible displays that can be bent or curved. Toward that end, the displays will need a high degree of flexibility and durability while remaining thin and lightweight. In order to make a reality of this type of “display of the future,” DNP will further refine the technologies that we have been cultivating all along, and continue working to provide new value.

Preventing reflection of external light from an OLED display



High contrast can be maintained by having an electrode inside the OLED display absorb reflected sunlight or other external light

Medical Information Processing Technologies

Developing businesses and technologies with medical doctors and technicians in mind —Applying printing-based technologies in response to demand for medical information services

Amid today's "ultra-aging" society, DNP has undertaken to develop products and services that support consumers' health maintenance.

We aim to synergize our P&I strengths with other technologies, including biotechnology, in order to expand our life science businesses.

● Life science businesses that DNP is developing:

Medical supplies	Medical image processing	Preventative medicine	Regenerative medicine
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Expanding businesses related to medical information systems

As one of the life science business fields that DNP is developing, medical image processing makes use of advanced information processing technologies that DNP has developed in its printing business. We have formed a capital and business alliance with PSP Corp., a major player in Japanese medical imaging management systems, with whom we are collaborating especially to promote a picture archiving and communication system (PACS).

PACS performs total management of all of the digital images recorded in hospitals, whether by X-ray, CT, MRI or other equipment, and makes the images available to all of the hospital's departments. In particular, radiologists need to be able to view a large number of these types of images within a short time, in order to make timely diagnoses. A PACS supports doctors in making image-based diagnoses by providing a wide variety of image processing functions.

Using image processing technologies developed through printing to create support functions for image-based diagnosis

To date, DNP has made use of its strengths in image processing technologies to develop image processing LSIs capable of reproducing natural-looking colors that are gentle on the eyes and can correct distorted images. In addition, we have been collaborating with Tokyo Medical and Dental University to research and develop image analysis technologies for using MRI images of eyeballs to investigate causes of pathologic myopia, which is common among Japanese people.

We plan to further develop these technologies in order to create computer-aided diagnosis (CAD) systems to support diagnosis of breast cancer and other diseases by automatically analyzing image data obtained from X-ray, CT or MRI, etc. As we progress in this development, we also intend to work to improve the accuracy of automatic analysis by adding 3D imaging, artificial intelligence, and machine learning functions.

Yasunori Kurima, Ph.D.

Deputy General Manager
1st Business Development Unit
3rd Division
Advanced Business Center





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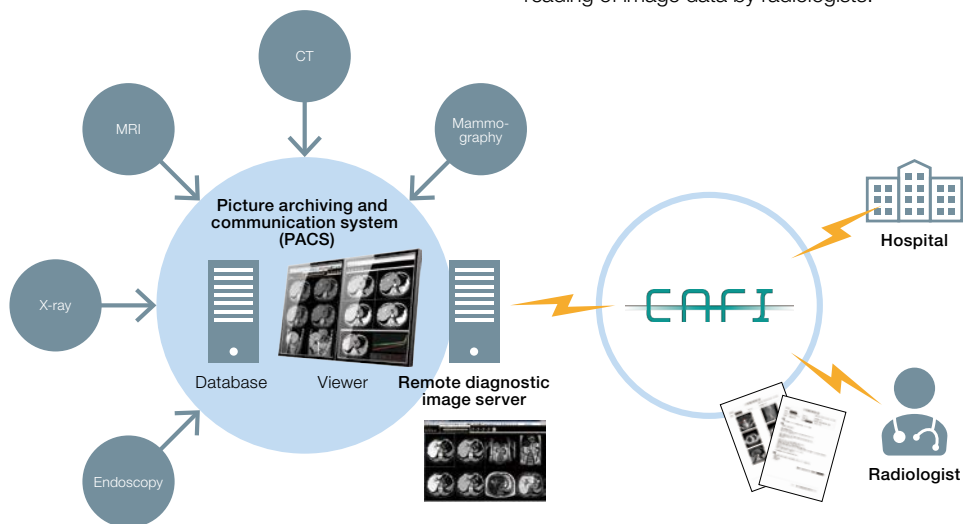
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Remote medical imaging diagnostic support services that contribute to regional medical care

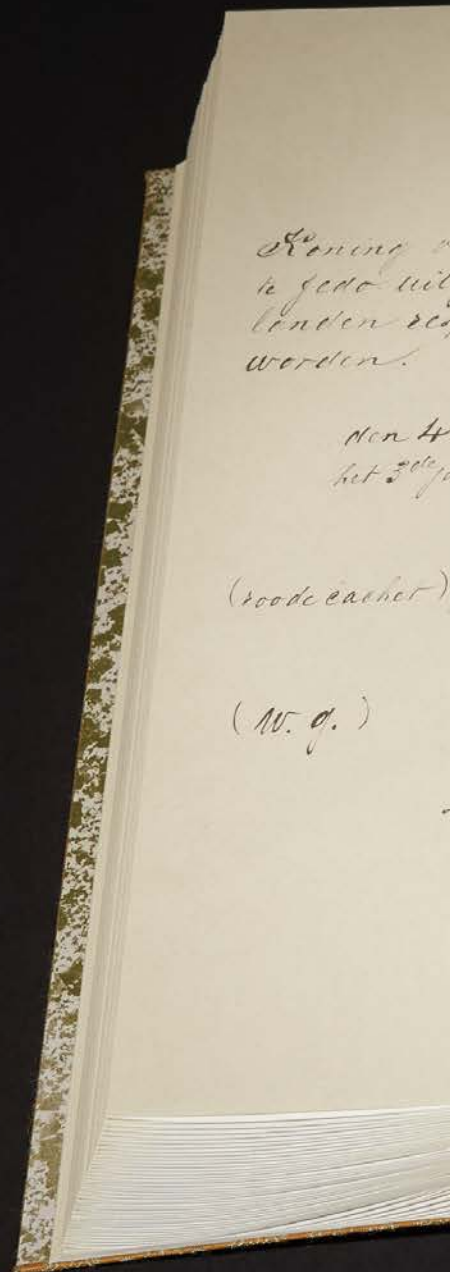
In the field of community medical care, CAFI (Center for Advanced Functional Imaging in medicine) Corporation, a DNP subsidiary, that is developing a remote medical imaging diagnostic support business. The background of this business is that there is a shortage of radiologists throughout Japan, and the number of images to be checked has been growing dramatically as diagnostic imaging equipment has become faster and more advanced, thus increasing pressure

on image-based diagnosis systems.

Our remote medical imaging diagnostic support business uses information technology to help relieve this pressure by transmitting images recorded in local hospitals and clinics to radiology specialists in remote locations and then returning diagnostic reports. By handling patients' very important and confidential information through our DNP Kashiwa Data Center, which has advanced information security functions and a highly secure network environment, we ensure the safety of data exchanges between local medical facilities and radiologists and provide specialized environments for the reading of image data by radiologists.



DNP in Brief



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32	DNP at a Glance
34	Our Products and Services
36	Evolution of DNP's Businesses
38	Investor Information

an Denmark in het
gewisfeld en zal door
respectively gehandhaafd

den dag der gele maand van
van Kio hinc

Obinamote Jasinobae

Oosawara Ikinokami
Minister van Buitenlandzake
saka van Keizerrijk Japan

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DNP at a Glance

Profile

A comprehensive printing company that creates new value by means of “P&I innovations” that make use of strengths related to printing (P) and information (I)

DNP is a comprehensive printing company that provides a variety of products and services in a wide range of business fields to consumers and some 30,000 corporate clients in Japan and around the globe. Since its founding in 1876, the Company has branched out from book, magazine and commercial printing into diverse fields including packaging, decorative materials, display components, and electronic devices, and has developed many products for which it holds the world’s largest market share.

Today, DNP is committed to creating “new value” to help solve society’s challenges with a focus on four growth areas and its “P&I innovations” business vision. The four growth areas are Knowledge and Communication, Food and Healthcare, Lifestyle and Mobility, and Environment and Energy. “P&I innovations” means refining and combining our strengths related to printing (P) and information (I) in order to create innovative new value.

From early in its development, DNP set about boosting the efficiency of the overall Group’s management by promoting overall optimization and working to boost profitability and make effective use of management resources, etc. We have been working to increase corporate value by undertaking a variety of structural reforms. For example, we consolidated a number of functions such as project planning, sales, research and development within our corporate headquarters, and distributed manufacturing divisions and specific technology development units among Group companies.

As of March 31, 2017, the DNP Group employed 38,808 people and had 38 sales bases and 61 production plants in Japan. Overseas, the Group has 28 sales bases in 15 countries and a region, and 16 production plants in seven countries and a region. Overseas sales contributed 14.4% of the Group’s overall net sales in the fiscal year ended March 2017.

Business Portfolio

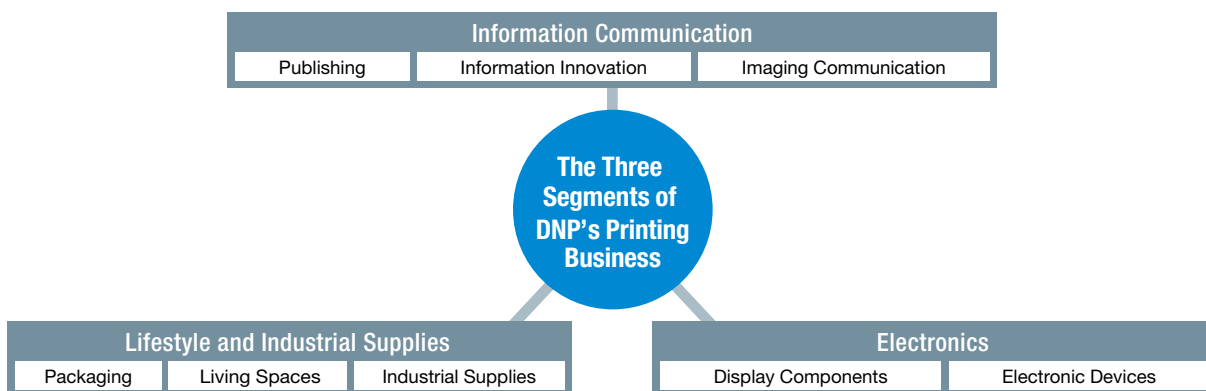
A business portfolio that is balanced in terms of stability, profitability, growth potential, and business risks

DNP has two main businesses: Printing, which contributes about 96% of consolidated net sales, and Beverages, which generates about 4% of the Group’s sales through Hokkaido Coca-Cola Bottling Co., Ltd. Armed with this business portfolio, DNP aims to continue expanding its businesses and increasing its corporate value by striving to solve problems faced by corporate clients, consumers, and society.

■ **Printing:** Especially by making use of DNP’s strengths in printing and information technologies, we have established a wide variety of businesses that solve problems for companies of various formats working in diverse industries, as well as for individual consumers and society as a whole. Within Printing, the Information Communication segment consists of publishing-related businesses including the printing of books and magazines where DNP got its start; Information Innovation businesses including commercial printing and other marketing-related businesses as well as smart cards and information security; and Imaging Communication businesses that handle everything to do with images. The Lifestyle and Industrial Supplies segment supplies a wide range of products and services including packaging products, decorative materials for residential buildings, interior and exterior products for automobiles and trains, and energy-related components. The Electronics segment focuses on the development of products like display components, optical films, and electronic devices. These three segments cooperate with each other and form a business portfolio that is well-balanced from the standpoints of stability, profitability, growth potential, and risks.

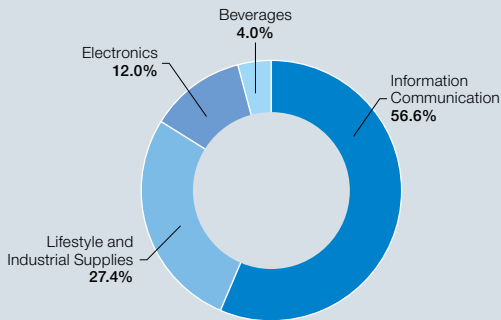
■ **Beverages:** In addition to taking advantage of the strong Coca-Cola brand and developing original DNP products, this division is working to expand its business, for example by promoting production and procurement in cooperation with bottlers in other parts of Japan.

Three Well-Balanced Business Segments



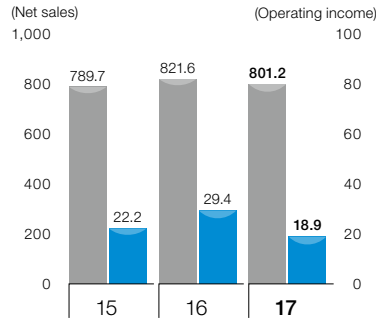
Net Sales by Segment

(Year ended March 31, 2017)

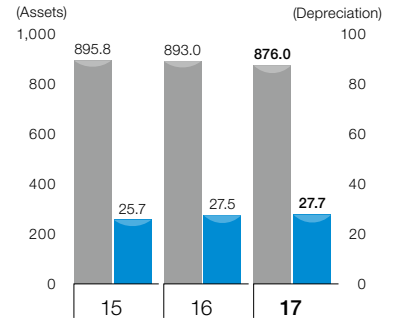


Information Communication

■ Net Sales ■ Operating Income (¥ billion)

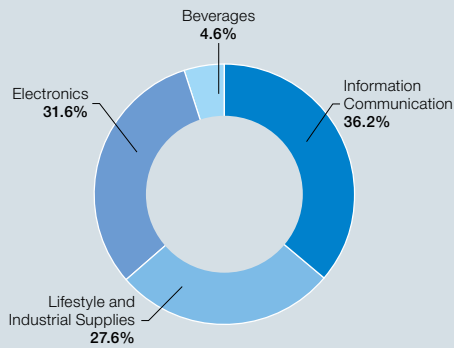


■ Assets ■ Depreciation (¥ billion)



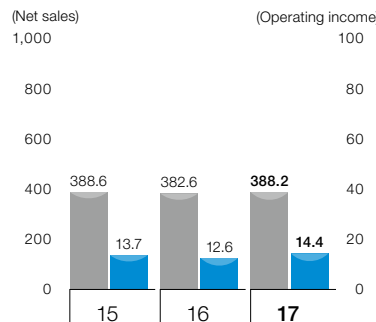
Operating Income by Segment

(Year ended March 31, 2017)

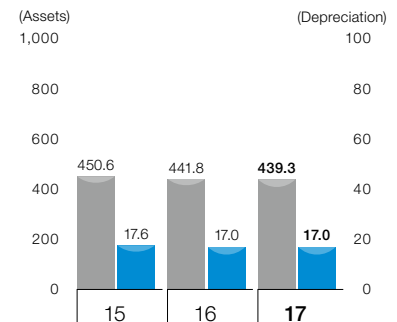


Lifestyle and Industrial Supplies

■ Net Sales ■ Operating Income (¥ billion)

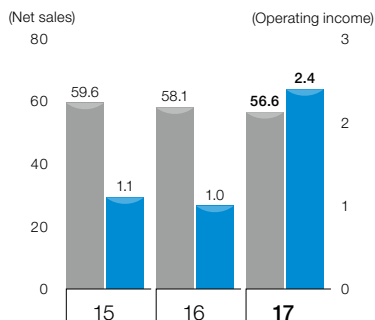


■ Assets ■ Depreciation (¥ billion)



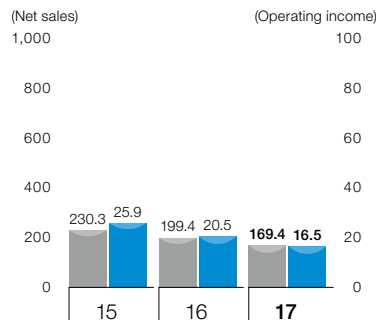
Beverages

■ Net Sales ■ Operating Income (¥ billion)

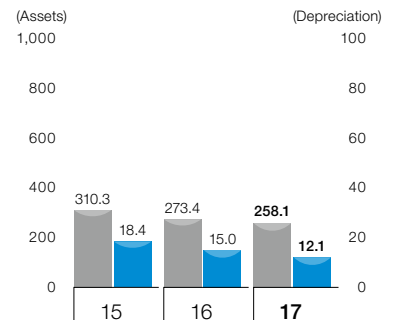


Electronics

■ Net Sales ■ Operating Income (¥ billion)



■ Assets ■ Depreciation (¥ billion)



Our Products and Services

Information Communication

Publishing

- **Publishing & Media Services** [1] Books and magazines [2] Hybrid bookstore network "honto"
- **Education and Publications Distribution** [3] Maruzen & Junkudo Bookstore in Shibuya (Tokyo)

Information Innovation

- **Marketing** [4] Flyers and catalogs [5] Point-of-purchase advertising [6] Electronic paper [7] Energy-efficient digital signage
- **BPO (Business Process Outsourcing)** [8] DNP's Kamiya Solutions Center
- **Information Security** [9] Personalized mail [10] Smart cards and magnetic cards [11] SIM card [12] Cloud payment services [13] Transparent hologram ribbon

Imaging Communication

- [14] Dye-sublimation thermal transfer printing media and thermal mass transfer printing media
- [15] Dye-sublimation photo printer [16] Ki-Re-i ID photo kiosk



Lifestyle and Industrial Supplies

Packaging

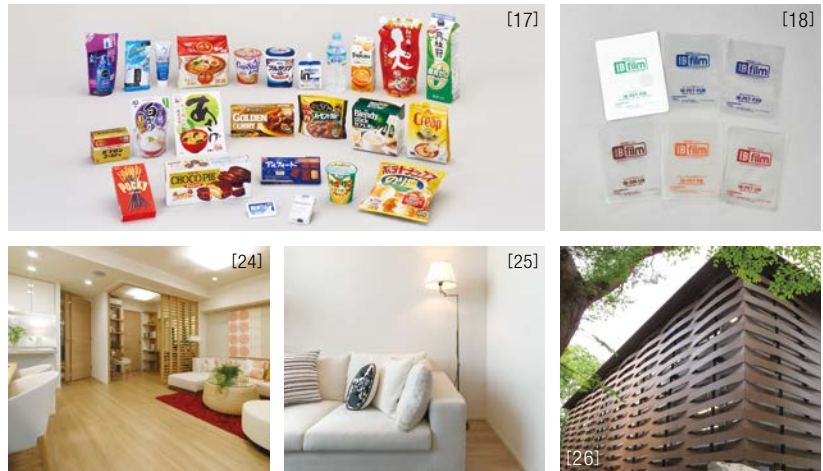
- [17] Packaging [18] Barrier film for packages [19] Biobased packaging materials [20] PET plastic bottles (left and center) and preforms (right) [21] Aseptic filling systems for PET plastic bottles [22] Comprehensive packaging evaluation services [23] Medicine packaging for daily behavior monitoring systems

Living Spaces

- [24] Residential interior materials (floor coverings) [25] Residential interior materials (wall coverings) [26] Exterior materials for buildings [27] Automotive interior materials [28] Interior coverings for railway cars (Hokuriku Shinkansen)

Industrial Supplies

- [29] Photovoltaic module component [30] Bus line sheet used in photovoltaic cells [31] Lithium-ion battery components



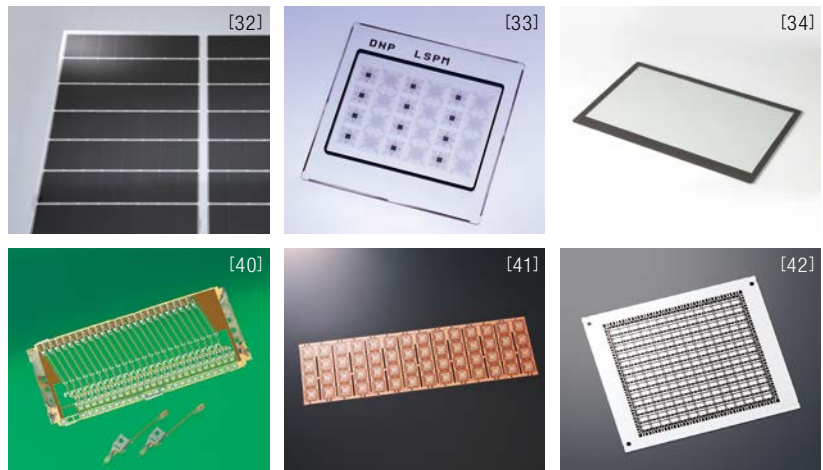
Electronics

Display Components

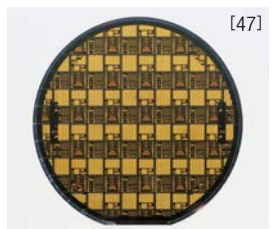
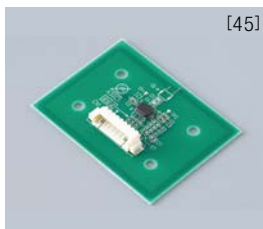
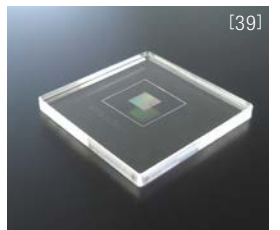
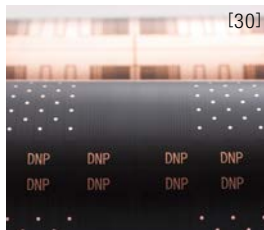
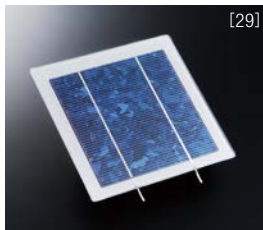
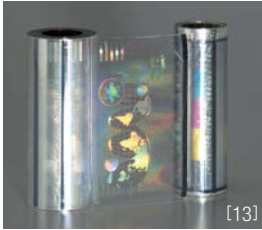
- [32] Color filter for liquid crystal display [33] Large-scale photomask [34] Touch panel sensor [35] Optical films used for displays [36] Electrode film for capacitive touch panels [37] Digital shelves

Electronic Devices

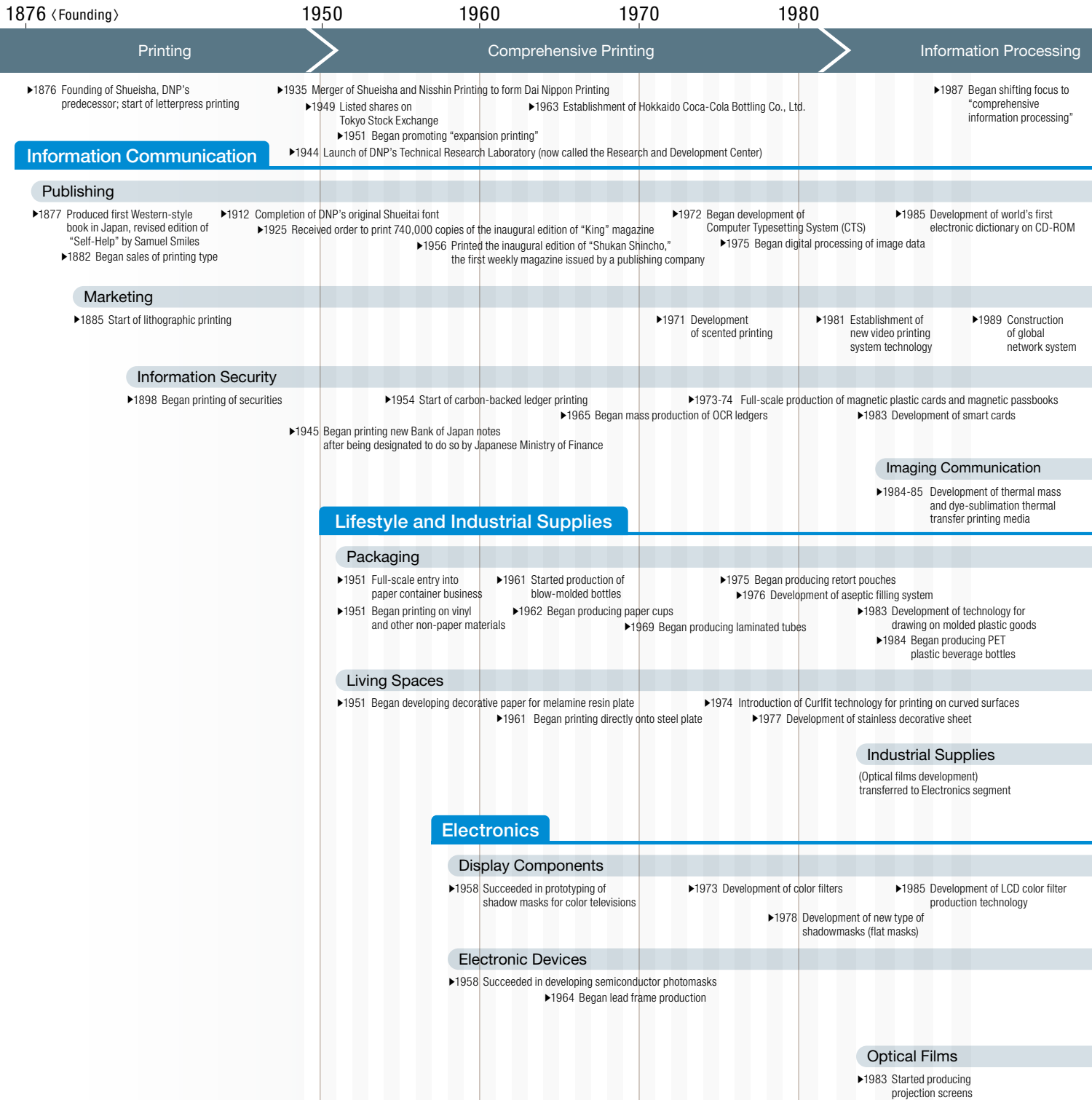
- [38] Semiconductor photomask [39] Master template for nanoimprinting [40] Hard disk drive suspension [41] Lead frame for compact semiconductor package [42] Metal substrate for LED light [43] Camera module [44] Image enhancement LSI [45] NFC (near field communication) module [46] Electronic paper display system [47] MEMS (micro electro mechanical systems) products

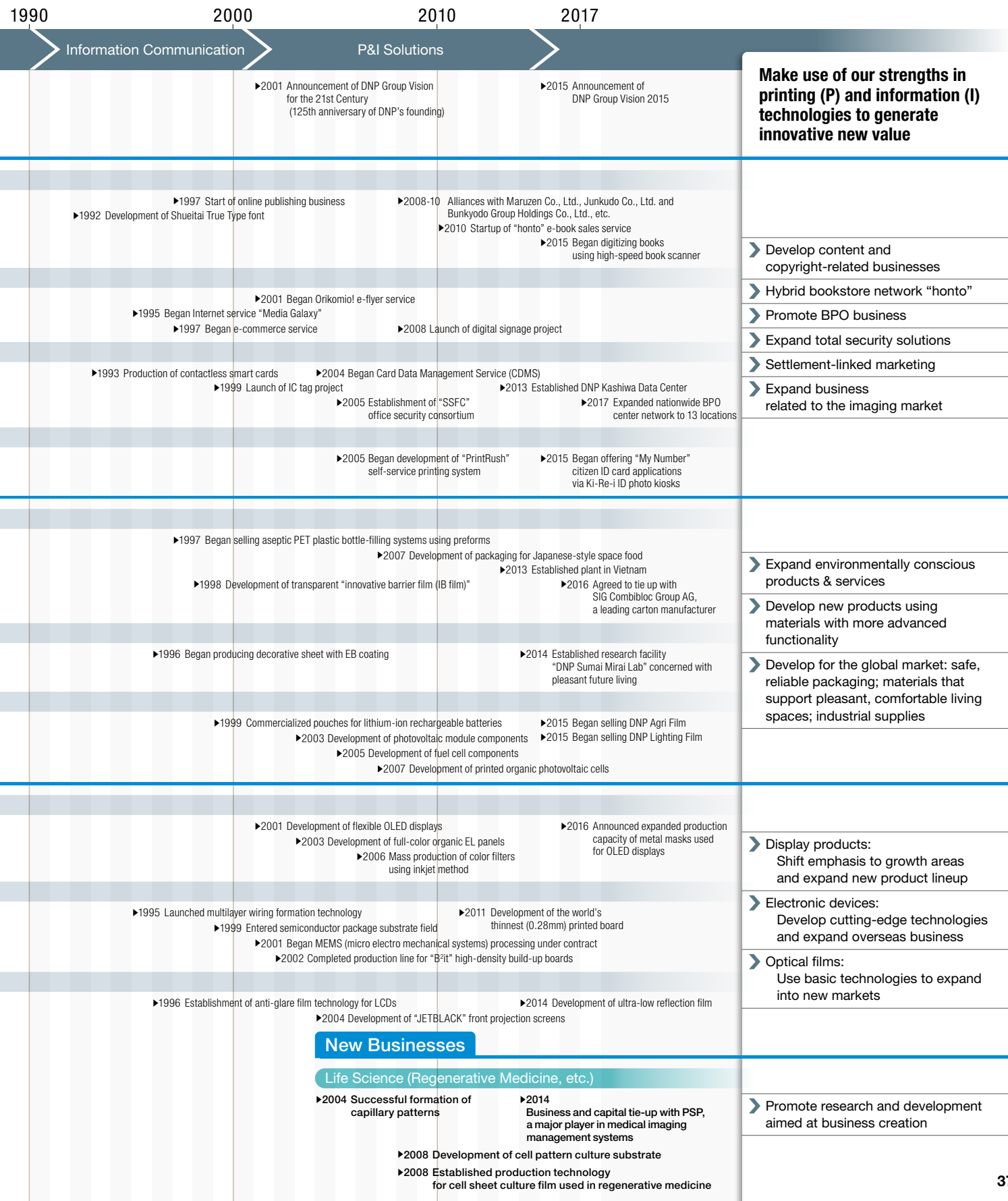


Note: Numbers in square brackets correspond to photographs on pp. 34-35.



Evolution of DNP's Businesses





Make use of our strengths in printing (P) and information (I) technologies to generate innovative new value

- ▶ Develop content and copyright-related businesses
- ▶ Hybrid bookstore network "honto"
- ▶ Promote BPO business
- ▶ Expand total security solutions
- ▶ Settlement-linked marketing
- ▶ Expand business related to the imaging market

- ▶ Expand environmentally conscious products & services
- ▶ Develop new products using materials with more advanced functionality
- ▶ Develop for the global market: safe, reliable packaging; materials that support pleasant, comfortable living spaces; industrial supplies

- ▶ Display products: Shift emphasis to growth areas and expand new product lineup
- ▶ Electronic devices: Develop cutting-edge technologies and expand overseas business
- ▶ Optical films: Use basic technologies to expand into new markets

- ▶ Promote research and development aimed at business creation

Investor Information

(as of March 31, 2017)

Dai Nippon Printing Co., Ltd.

Head Office:

1-1, Ichigaya-Kagacho 1-chome, Shinjuku-ku,
Tokyo 162-8001, Japan

Established: 1876

Number of Employees (consolidated): 38,808

Paid-in Capital: ¥114,464 million

Number of Common Stocks:

Authorized: 1,490,000,000 shares

Issued: 663,480,693 shares

* With the cancellation of 15 million treasury shares on May 26, 2017,
the total number of outstanding shares stood at 648,480,693.

Number of Trading Unit Shareholders (own 1,000 or more shares):

22,650

Stock Exchange Listing: Tokyo Stock Exchange

Major Shareholders:

	Shares (thousands)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	48,989	7.96
Japan Trustee Services Bank, Ltd. (Trust Account)	31,091	5.05
The Dai-ichi Life Insurance Co., Ltd.	25,941	4.21
Mizuho Bank, Ltd.	18,413	2.99
Employees' Shareholding Association	15,738	2.56
Japan Trustee Services Bank, Ltd. (Trust Account 5)	10,598	1.72
Nippon Life Insurance Company	9,471	1.54
State Street Bank And Trust Company 505225	8,681	1.41
Japan Trustee Services Bank, Ltd. (Trust Account 1)	7,804	1.27
Japan Trustee Services Bank, Ltd. (Trust Account 2)	7,796	1.27

Notes: 1. The number of treasury shares (47,741,362) is excluded from the figures above.
2. The ownership stakes are based on the total number of shares outstanding less treasury shares (615,739,331).

Major Stock Indices in which DNP is a Constituent:

Nikkei Stock Average
TOPIX Mid400
S&P/TOPIX 150
Dow Jones Sustainability Indices
FTSE4Good Global Index
MSCI Global Sustainability Indexes
ETHIBEL Investment Register
Morningstar Socially Responsible Investment Index

Stock Code: 7912

Administrator of Shareholder Register:

Mizuho Trust & Banking Co., Ltd.
Stock Transfer Agency Department
2-1, Yaesu 1-chome, Chuo-ku,
Tokyo 103-8670, Japan

American Depositary Receipts:

Ratio (ADR:ORD): 1:1
Exchange: OTC (Over-the-Counter)
Symbol: DNPLY
CUSIP: 233806306
Depositary:
The Bank of New York Mellon
101 Barclay Street, 22 West,
New York, NY 10286, U.S.A.
Telephone: (201) 680-6825
U.S. toll free: 888-269-2377 (888-BNY-ADRS)
URL: <http://www.adrbnymellon.com/>

Annual Meeting of Shareholders:

The annual meeting of shareholders of DNP is normally held in June each year in Tokyo, Japan.

Investor Relations:

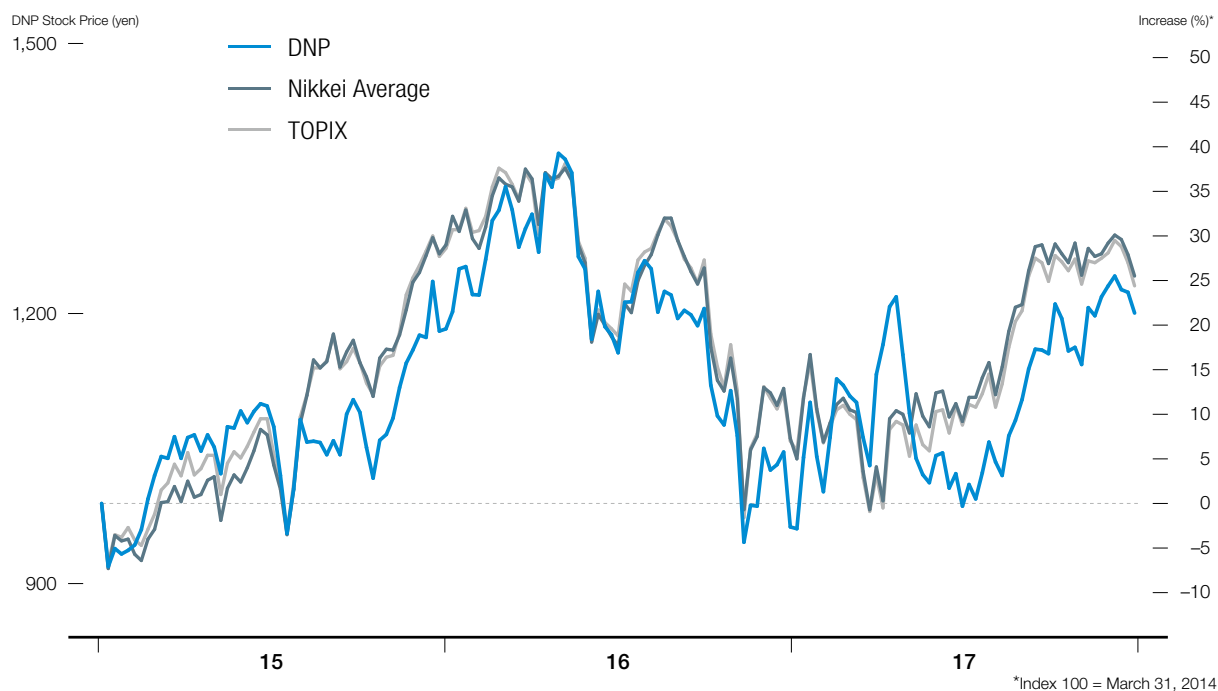
Dai Nippon Printing Co., Ltd.
Corporate Communication Division
Investor Relations Office
1-1, Ichigaya-Kagacho 1-chome, Shinjuku-ku,
Tokyo 162-8001, Japan
Tel: +81-3-6735-0124
Fax: +81-3-5225-8239

Web Site:

<http://www.dnp.co.jp/eng/>

Share Price Evolution (Tokyo Stock Exchange)

(between April 1, 2014 and March 31, 2017)



Voting Rights

(as of March 31, 2017)

Type	Number of Stocks (stocks)	Number of Voting Rights (rights)
Stocks with no voting rights	-	-
Stocks with limited voting rights (treasury stocks, etc.)	-	-
Stocks with limited voting rights (other)	-	-
Stocks with voting rights (Treasury held stocks)	Common stocks 47,741,000	-
(treasury stocks, etc.) (Mutually held stocks)	Common stocks 1,085,000	-
Stocks with voting rights (other)	Common stocks 612,858,000	612,857
Stocks with less than trading units	Common stocks 1,796,693	-
Outstanding shares	663,480,693	-
Total voting rights of stockholders	-	612,857

Treasury Stocks

(as of March 31, 2017)

Holder	No. of Stocks Held	Percentage of Holding to No. of Outstanding Shares
Dai Nippon Printing Co., Ltd.	47,741,000	7.20
Kyoiku Shuppan Co., Ltd.	1,085,000	0.16
Total	48,826,000	7.36

Change in Number of Shares per Unit and Share Consolidation

DNP will change the number of shares per share unit from 1,000 shares to 100 shares and implement a share consolidation in which two shares are consolidated into one share effective October 1, 2017 to achieve an investment unit level that is preferred by stock exchanges. This share consolidation will decrease the number of shares owned by shareholders by half, but because the company's assets and capital will not change, asset value per share will double. The asset value of stock owned by shareholders will not change*, apart from other factors such as stock market trends. Concerning dividends, DNP expects to pay an interim dividend of ¥16 per share, the same as the previous year, for the number of

shares owned as of September 30, 2017 (number of shares before the share consolidation), and a year-end dividend of ¥32 per share (without the share consolidation this would be ¥16, the same as the previous year) for the number of shares owned as of March 31, 2018 (number of shares after the share consolidation).

* DNP will provide notification about the number of shares owned after the share consolidation in the middle of November. For shareholders who own a fractional 0.5 share as a result of the share consolidation, DNP will sell all of these fractional shares and distribute the proceeds to shareholders in early December (this will apply to shareholders who own an odd number of shares as of September 30, 2017).

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Information Communication



Left: DNP cloud payment services for smart devices Right: Books and magazines

Business Strategies

As information becomes increasingly digitized and networked, and information media become increasingly diverse, consumers' values and lifestyles have been undergoing major changes. Rather than just reacting to those changes, DNP is developing a wide range of businesses that enable us to generate changes ourselves by "delivering the information that consumers want, when they want it, in optimal media formats."

The Information Communication segment includes businesses related to Publishing & Media Services, Marketing, Information Security, Education and Publications Distribution, and Imaging Communication, with the latter addressing all aspects of imaging.

Our Marketing unit has begun sales activities in the form of consulting aimed at solving the problems of client companies from the consumer's point of view. In October 2016, we established a new company, DNP Communication Design Co., Ltd., by integrating planning and production functions that had been operating separately within multiple business units. In April 2017, we launched DNP Digital Solutions Co., Ltd., which specializes in system integration. We intend to make effective use of these planning, production, and other systems as we work to solve various problems.

Our Business Process Outsourcing (BPO) business comprehensively handles business processes outsourced by client companies. After establishing two new operating locations in June 2017, we now have 13 BPO centers throughout Japan that will serve as the main venues from which we will work to further expand this business. We plan to do the groundwork for a new business offering new types of settlement services, including international brand prepaid cards and cloud payment services. We will also provide new value through businesses like our "honto" hybrid bookstore network that offers both paper and electronic media, and by developing diverse services that combine photographic prints with information services.

In addition, we will promote dynamic structural reforms aimed at expanding earnings, for example by constructing a unified system for supervising our manufacturing operations throughout Japan.

Main Policies

1 Generate value by expanding business, primarily in growth areas

Of the four growth areas in which DNP has decided to concentrate, the Information Communication segment will focus particularly on creating new value and resolving social issues in the area of “Knowledge and Communication.” With digital networks reaching the entire globe and information services becoming more sophisticated in recent years, security measures that protect against various third-party threats have become very important. DNP uses the phrase “Internet of secure things” (IoST) to express its commitment to making the Internet of things (IoT) safe as well as highly convenient, and we plan to develop businesses that make use of our strengths in information security.

Generate new value in areas such as publishing and media, publications distribution, and educational information and communication technology (ICT)

- Increase sales by the “honto” hybrid bookstore network that links online sales of e-books and paper books through the honto website with sales at bricks-and-mortar stores operated by MaruzenJunkudo Bookstores Co., Ltd. and Bunkyodo Group Holdings Co., Ltd.
- In addition to producing printed materials, expand businesses that are peripheral to publishing, for example reader services and marketing that makes use of magazine brands and/or published content.
- Provide comprehensive solutions for linked production of paper books and e-books, and for on-demand printing of small lots, etc.
- In addition to providing an electronic library system, promote community-building, for example by combining bookstores with libraries in order to create venues where people can get together.
- Provide all types of textbooks and specialized books in hybrid (paper/electronic) form, in order to promote adoption of information and communication technologies in educational settings.

Promote various businesses that make full use of DNP's solid information security technologies and infrastructure

- Make use of our 13 business process outsourcing (BPO) centers in Japan in our effort to expand DNP's BPO business. Examples of these operations include market research and problem analysis; design, construction and implementation of optimal business processes; operation of customer service centers; and production and shipping of promotional materials.
- Use DNP Kashiwa Data Center to develop international brand pre-paid cards and debit settlement services, etc. in response to diversifying needs related to settlement methods and information security. Provide unique settlement services that can be easily adopted by a wide range of industries such as those engaged in finance or distribution.

Expand DNP's business value from consumers' point of view, by taking advantage of big data and helping both inbound and outbound travelers

- Use multilingual translation platforms and focus on stimulating communication between consumers and companies in various countries and regions.

- Expand various services that enliven outlying regions in response to the growing number of foreign visitors to Japan (inbound travelers) and Japanese going overseas (outbound travelers).

Expand Imaging Communication operations, which make businesses out of everything to do with imaging

- Focus on expanding the scale of operations of the DNP Imaging Mall, which engages in printing and sales of images recorded at sporting or other events.
- Uncover new value in Japanese and/or overseas photo imaging markets that people experience as fun, happy, entertaining, easy, or convenient, etc., and offer it in the form of products and services.

Provide digital marketing services

- Use consulting, settlement data, and client analysis based on DNP's original systems in order to address corporate clients' marketing issues and propose plans for optimal sales campaigns, including promotions that use smartphones or tablet computers.

2 Provide value to the global market

- Develop publishing-related businesses in Japan and overseas by increasing cooperation with publishers; planning, producing, distributing and selling all types of publications; making use of content and magazine brands; and promoting copyright processing, etc.
- Boost the competitiveness of the smart card businesses that we operate in Southeast Asia together with major Indonesian and Vietnamese card manufacturers with whom we have business and capital alliances.
- Further strengthen global manufacturing, sales and service systems related to Imaging Communications, and expand businesses connected to all aspects of imaging—in addition to ink ribbons and other print media. Also, respond rapidly to the growing worldwide trend toward digitization of commercial photo printing systems, and strive to maintain and expand our share of the market for related supplies.

3 Increase corporate value by means of all kinds of structural reforms

- Following on the integration of multiple marketing-related and information security-related business divisions in April 2016, create new value by facilitating advances in technology and expertise and synergistic combinations of each unit's strengths, and improve operational efficiency in order to boost profitability.
- Accelerate construction of new business models by integrating marketing and settlement services, and by strengthening collaboration between our information and communication technology (ICT) and business process outsourcing (BPO) businesses. We already began this process by consolidating planning and production functions that were formerly divided among units within Dai Nippon Printing Co., Ltd. and several Group companies, and by launching DNP Communication Design Co., Ltd. to handle marketing-related operations and DNP Digital Solutions Co., Ltd. to handle operations related to system development.
- Conduct a thorough review of the locations, scale, and other attributes of DNP Group book stores, and work to improve profitability by implementing a scrap-and-build strategy.

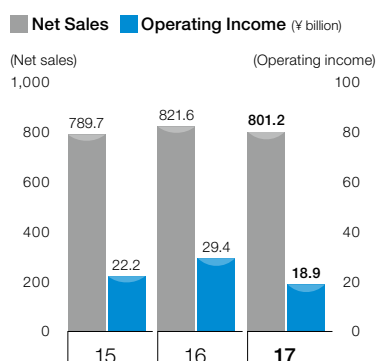
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Information Communication

Financial Results

Financial Highlights

	2015.3	2016.3	2017.3
Net sales	¥ 789.7	¥ 821.6	¥ 801.2
Operating income	22.2	29.4	18.9
Operating income margin	2.8%	3.6%	2.4%



[Net Sales]

Although Information Security and Marketing continued to perform solidly, sales from Education and Publications Distribution, Publishing & Media Services and Imaging Communication declined, resulting in a drop of 20.42 billion yen, or 2.5%, in net sales for the segment as a whole compared to the previous fiscal year.

[Operating Income]

Businesses that contributed to profits through increased sales included SIM cards for smartphones, smart cards for managing electronic money, credit cards, and information processing services (IPS) such as personal mailing services tailored to the needs of financial institutions. Nevertheless, the segment's bottom line was affected by decreased sales from Imaging Communications, due mainly to appreciation of the yen, in addition to increased outlays to fund retirement benefits and upfront investments related to new business start-ups. As a result, operating income decreased by 35.7%, or 10.48 billion yen, from the previous fiscal term. The segment's operating income margin decreased by 1.2 points to 2.4%, from 3.6% in the previous fiscal year.

Fiscal Term through March 2017: Business Environment and Summary of Financial Results

Publishing & Media Services; Education and Publications Distribution

In the fiscal year ended March 2017, Japanese publishing industry sales declined by 4.2% from a year earlier to 1,441.0 billion yen. Magazine sales fell 5.8% to 715.9 billion yen due to a decrease in the number of copies sold combined with an increase in the number of magazines that ceased publication, while book sales declined by 2.5% to 725.1 billion yen. In other words, magazines sales volume fell below the level of book sales for the first time in decades. At the same time, the domestic market for e-books expanded greatly in calendar 2016 relative to the previous year, growing by 27.1% to 190.9 billion yen (Source: Research Institute for Publications, the All Japan Magazine and Book Publishers' and Editors' Association).

DNP managed to secure roughly the same level of book sales as the previous year due to aggressive marketing activities, but magazine sales fell sharply, so overall sales from Publishing & Media Services declined compared to a year earlier.

In Education and Publications Distribution, we worked on expanding our "honto" hybrid bookstore network, which combines sales through bookstores, online mail order and e-book download services. In October 2016, we launched our "Book Tree" web service whereby authors, bookstore employees and others serve as "curators" who select books related to a theme of their choosing and display them to readers who have indicated an interest in that theme. In addition, our library support business picked up new client libraries and brought in more sales revenue than the previous year, but the Education and Publications Distribution unit posted lower sales overall compared to a year earlier due to the significant impact of the transfer in October 2016 of some shares in Bunkyo Group Holdings Co., Ltd. to Nippon Shuppan Hanbai Inc., and the change of Bunkyo's status to equity-method affiliate.

Going forward, DNP aims to revitalize the publishing market, further increase cooperation with publishers, and promote all kinds of publishing-related businesses including project planning, production, distribution and sales of various types of publications, development of content for overseas consumption, and handling of copyrights for secondary usage of content.

Marketing

According to a Japanese Ministry of Economy, Trade and Industry study, overall domestic corporate advertising expenses in the fiscal year ended March 2017 inched up by 2.1% over the previous year. Expenditures for direct mail and other printed advertisements declined, but spending on Internet advertising

increased, while spending on advertising in newspapers, magazines, television and radio was roughly unchanged from the previous year.

Despite a drop in flyer sales, DNP's Marketing-related sales increased over the previous year thanks to stronger sales of catalogs, pamphlets, and point-of-purchase (POP) and other promotional tools for retail and other distributors.

In the future, we will provide total marketing solutions that start with consulting and other services aimed at improving clients' business processes and marketing, including everything from planning and implementing sales campaigns to all types of studies and analyses and production and delivery of POP tools and leaflets, etc. Also, following the inauguration of DNP Communication Design Co., Ltd. in October 2016 and the launch of DNP Digital Solutions Co., Ltd. in April 2017, we intend to accelerate the construction of new business models by integrating marketing and settlement services and by strengthening collaboration in the information and communication technology (ICT) and business process outsourcing (BPO) fields.

Information Security

In Japan, major financial institutions and other large organizations are increasingly electing full outsourcing of the production of various notices to consumers. Issuance of SIM cards for telecommunications carriers, and of credit cards and other smart cards is also on the rise. Official "My Number" citizen ID smart cards became available in January 2016, and we expect issuance to gradually increase following the start of full-scale operation of the My Number portal site planned for October 2017.

In the fiscal year ended March 2017, DNP's sales of SIM cards for smartphones and smart cards for financial institutions and electronic money applications increased over the previous fiscal term. In IPS-related business, solid demand for services outsourced by financial institutions also helped overall Information Security sales exceed the previous year.

DNP's business processing infrastructure, including the DNP

Kashiwa Data Center and 13 domestic BPO bases, is protected by advanced information security measures. We will take full advantage of this environment and also strengthen collaboration with Nihon Unisys, Ltd. Through these measures, we intend to provide a variety of value-added services such as a digital marketing service that integrates international brand prepaid cards and settlement-linked marketing services, and BPO operations that efficiently execute business processes on behalf of client corporations.

Imaging Communication

DNP is developing businesses that target the overall imaging market—i.e. everything to do with images. In addition to responding to consumers' growing demand for products like photo prints and photo albums, we offer new services that make use of information and communication technologies to connect companies and consumers. For example, our "DNP Imaging Mall" is a cloud-based image sales solution that provides one-stop service starting with data storage and including website construction and image processing, printing and delivery.

Demand for photographic prints has been decreasing worldwide due to the proliferation of digital cameras, smartphones and photo sharing services. However, as photo print providers switch from the conventional silver halide photo development method, we see growing demand for the dye-sublimation thermal transfer printing systems (both equipment and supplies) in which DNP has a strong advantage. In Japan, our photo book business is also growing, as personalized photo books are becoming increasingly popular as gifts.

Sales of dye-sublimation thermal transfer printing media (color ink ribbons and receiver paper) in the fiscal year ended March 2017 declined from the previous year, largely due to the strong yen and the end of a round of printer replacements in the North American market. Sales of thermal mass transfer printing media, mainly used for printing expiration dates on food packages and bar codes on all types of packaging, also fell below the previous-year level, as did overall Imaging Communication sales.

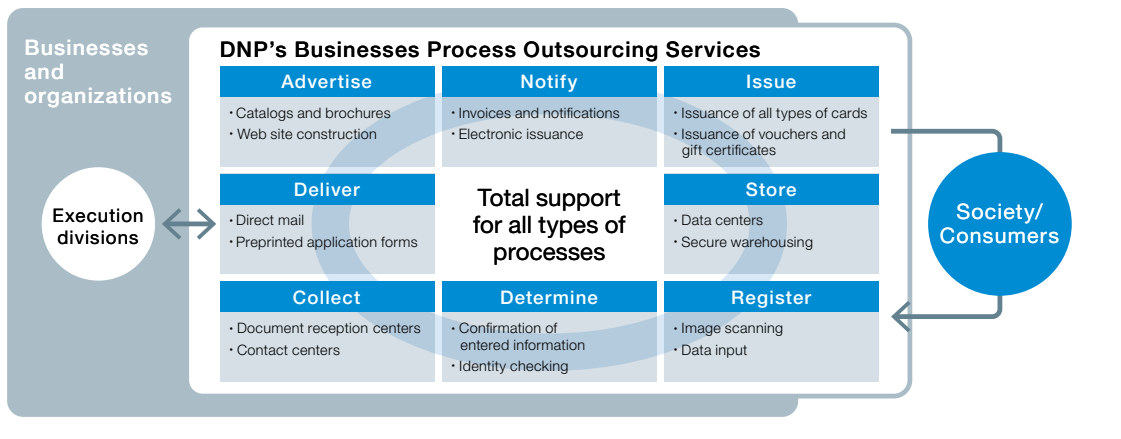
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TOPICS

We expanded our network of BPO centers and responded to developments in digital marketing.

In June 2017, in response to growing demand for business process outsourcing (BPO) services, DNP opened a new BPO center in

Tokyo's Shinjuku Ward, and another in Fukuoka City, Fukuoka Prefecture, giving DNP a total of 13 BPO operating locations in Japan. We intend to offer BPO services in a wider range of business fields, including digital marketing services that enhance the effectiveness of sales promotions by using the Internet to deliver optimally tailored information to consumers at optimal times.



Lifestyle & Industrial Supplies



Left: PET plastic bottles and preforms Right: Residential interior materials (wall covering)

Business Strategies

The Lifestyle and Industrial Supplies segment is composed of three business divisions: Packaging, Living Spaces, and Industrial Supplies. The segment provides many familiar products and services that play important roles in the daily lives of consumers. Our Packaging business creates many of the packages that consumers use in daily life, including packaging for foods, beverages and pharmaceutical products. We propose a wide variety of packaging solutions, beginning with helping clients to choose materials (paper or plastic, etc.), design package structure, select functionalities (e.g. long-term preservation of contents), and plan an exterior design, etc. Living Spaces handles a wide variety of products that shape the spaces in which people live, including residential interior and exterior materials such as floor and wall coverings, and interior products for automobiles and railway cars. These products offer a wide variety of special qualities such as a broad choice of artistic designs (including wood grain or stone-like textures), resistance to soiling and scratching, and the ability to reflect light efficiently. Products provided by Industrial Supplies include components used in lithium-ion rechargeable batteries and photovoltaic cells.

Products and services that are indispensable to comfortable living must also contribute to people's safety and sense of security. We develop products with consideration for "universal

design" and "inclusive design" principles so that our products will be easy for most consumers to use. In addition to focusing on energy conservation and adopting cleaner types of energy at our production sites, DNP strives to conserve biodiversity and minimize stress on the environment caused by the use and disposal of our products. Our strategy for the Lifestyle and Industrial Supplies segment is to anticipate the diverse needs of businesses and consumers in Japan and overseas and to create new value that enriches people's lives while fulfilling all of the above criteria.

DNP has identified four growth areas where we see potential to develop new value beyond our existing business unit boundaries: Knowledge and Communication; Food and Healthcare; Lifestyle and Mobility; and Environment and Energy. We aim to speed up business creation by making full use of technologies and expertise cultivated within our segment and by promoting collaboration both within and outside of the DNP Group, including by actively seeking alliances with companies and research institutes that have relevant strengths.

Main Policies

1 Generate value by expanding business, primarily in growth areas

Combine technologies and expertise cultivated in each business field and create new value that will help solve social issues in the “four growth areas.” In particular, use DNP’s proprietary coating (precision coating) and converting (material processing) technologies to develop advanced products and services both in Japan and overseas.

Actively develop environmentally conscious products and services that minimize stress on the environment and help conserve biodiversity

- Expand our lineup of advanced packaging products such as transparent vapor deposition film (IB film), which is highly transparent and has excellent barrier properties, and our “Biomatech PET” series of plastic films that are made partially from plant-based materials in order to help reduce petroleum usage. IB film has excellent gas and moisture barrier properties, along with high transparency. It has been well-received by the market as a more environmentally conscious alternative to aluminum foil. Going forward, we will expand industrial applications in addition to food-related applications.
- Make use of DNP’s proprietary Electron Beam (EB) coating technology to promote the development of interior and exterior decorative materials and similar products with strong scratch and soil resistance and other outstanding characteristics including weatherability.
- Expand sales of new products with superior functions, like “DNP Lighting Film,” which brightens an entire room by effectively reflecting and diffusing light, thereby conserving electric power.
- Focus on developing back sheets, encapsulants, and other photovoltaic module components that help increase the conversion efficiency and reliability of photovoltaic cells.

Consider consumers’ point of view in the development of products and services that are comfortable and easy to use for many types of people

- In Packaging, study and analyze consumers’ awareness and usage habits related to food products, beverages and all types of household items. In Living Spaces, too, we will maintain a grasp of consumers’ changing values and preferences from DNP’s unique viewpoint, analyze latent needs and sensitivities, and reflect that understanding in a variety of businesses that seek to increase consumers’ comfort in everyday life, including measurement and assessment of living environments, living space designs including designs based on Kansei (sensitivity) engineering, and the development of easy-to-implement construction techniques.
- Promote “inclusive design” which, from an early stage of product development, respects people’s diversity and considers the needs of all types of people including the elderly, people with disabilities, and people who live in different countries or speak different languages, etc.
- Use advanced image processing and printing technologies to develop products with strong aesthetic appeal.

Provide new value for the automotive and other markets

- Bolster cooperation with partners in addition to developing products like decorative films for auto interiors, “DNP ultra weather-resistant hard-coat transfer film” used on resin glass that helps reduce auto body weight, and “DNP adhesive films” that form a strong bond between different materials such as metal and carbon fiber-reinforced plastic.
- Accelerate development of automotive products that combine decorative technologies and functional film technologies cultivated by DNP with the superior molding and resin forming technologies of DNP Tamura Plastic Co., Ltd. DNP Tamura is a leading provider of visors attached to the side windows of automobiles.
- Take advantage of DNP’s strength as the world’s number one supplier of pouches for lithium-ion batteries to expand applications beyond mobile devices to include, for example, electric vehicles and household-use storage batteries.
- Expand business through our partnership with SIG Combibloc Group AG, a major manufacturer of paper cartons for foods and beverages that produces some 10,000 varieties of products worldwide. The company makes unusual containers rarely found in Japan—such as a carton that has a re-sealable spout and can be filled with solid foods which can help Japanese companies make their products stand out on store shelves.

2 Provide value to the global market

- Use our Packaging division’s presence in Indonesia and Vietnam, where it is already working to enhance production systems in order to expand market share in Southeast Asia, as a base from which to increase sales in neighboring countries.
- In Living Spaces, make full use of our global business network to increase our market share in Europe, the U.S., and emerging markets. In addition, boost overseas sales of Arttec decorative aluminum plate for interior and exterior use, as well as automobile interior materials.
- Work steadily to promote global expansion in sales of pouches for lithium-ion rechargeable batteries in order to expand our share of this market.

3 Increase corporate value by means of all kinds of structural reforms

- Review the DNP Group’s production systems from the standpoint of overall optimization, and promote improvements in production efficiency.
- Further improve profitability and production efficiency, especially in Packaging, now that we are making progress toward establishing a system for supervising domestic sales and manufacturing functions on a nationwide scale and reorganizing paper package manufacturing bases.
- Concerning business outside Japan, respond more flexibly to fluctuations in exchange rates and raw material supplies, and use hedging and other risk management tools to minimize any adverse effects of such fluctuations on our bottom line.

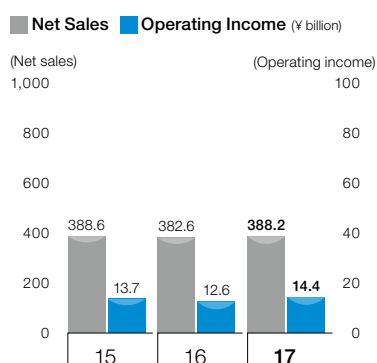
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Lifestyle & Industrial Supplies

Financial Results

Financial Highlights

	(¥ billion, %)		
	2015.3	2016.3	2017.3
Net sales	¥ 388.6	¥ 382.6	¥ 388.2
Operating income	13.7	12.6	14.4
Operating income margin	3.5%	3.3%	3.7%



[Net Sales]

Our Packaging business enjoyed strong sales of paper cups, mainly for use as food containers, and a large increase in sales of aseptic systems for filling polyethylene terephthalate (PET) plastic bottles. Living Spaces, which focused on expanding sales of automotive-related products and environmentally conscious products such as flooring made with electron beam (EB) coating technology, achieved a similar level of sales as the previous year. In Industrial Supplies, sales of components for photovoltaic cells were weak both in Japan and overseas.

Overall segment sales totaled 388.2 billion yen, an increase of 1.4% over the previous fiscal year.

[Operating Income]

Thanks to factors including decreased raw material and energy costs and increased revenue from Packaging, the segment's operating income grew by 14.6% from a year earlier to 14.43 billion. The operating income margin rose 0.4 percentage point to 3.7%, from 3.3% in the previous term.

Fiscal Term through March 2017: Business Environment and Summary of Financial Results

| Packaging

Production value of domestic packaging printing in the year ended March 2017 increased by 2% over the previous year (according to Japan's Ministry of Economy, Trade and Industry), but market conditions remained very tough due to such factors as fluctuations in sales of seasonal products stemming from unseasonable weather, and escalating price competition. Despite this environment, DNP's Packaging business exceeded the previous year's sales thanks to a big increase in sales of aseptic PET plastic bottle filling systems and strong sales of paper cups—especially those used as food containers.

DNP aims to expand its share of the global packaging market, particularly in Southeast Asia. We are using our factories in Indonesia and Vietnam, along with other operating locations in the region in our effort to provide high-added value products and services for Japanese and international companies doing business overseas. In order to boost our competitive position, we are working to improve production efficiency by implementing restructuring and overall optimization of our manufacturing bases throughout Japan.

In product development, we apply universal design principles so our products will be easy for all types of people to use. We are also promoting the development of environmentally conscious products and services, and packaging products related to the fields of medical care, healthcare and industrial supplies.

| Living Spaces

Domestic housing starts in the fiscal term ended March 2017 increased by 5.8% compared with the previous term according to Japan's Ministry of Land, Infrastructure, Transport and Tourism. However, construction starts of rental units (which use less decorative material on average) increased by 11.4%, while starts of occupant-owned condominiums (which use more decorative material) decreased by 5.1%, so domestic demand for decorative materials rose only slightly. Among the environmentally conscious products that DNP makes using our proprietary electron beam (EB) coating technology, our EB floor coverings have been praised particularly highly due to their high scratch resistance, and have sold well. As a result, overall sales from Living Spaces increased slightly.

In the fiscal year through March 2017, we focused on developing and marketing more environmentally conscious products, for example by enhancing the energy efficiency of various products, and by working to expand the market share of products made with EB coating technology. We also stepped up

efforts to market our highly aesthetic Arttec decorative aluminum plates for interior and exterior use, automotive interior materials, and other decorative materials to manufacturers outside of Japan. In addition to supplying automobile and railway car interior and exterior products with excellent durability and functionality, we worked to develop new automotive-related products by combining electronics-related technologies with resin forming, functional film, and other technologies.

Industrial Supplies

Domestic shipments of photovoltaic cells in the fiscal term through March 2017 (in terms of power generation capacity) decreased by 11% from a year earlier to 6,341 megawatts, according to the Japan Photovoltaic Energy Association. The drop was part of an ongoing decline in domestic demand for photovoltaic cells, especially for residential use, as revisions to Japan's feed-in tariff (FIT) system, which sets purchase prices for power generated from renewable sources, have resulted in lower prices for solar power. Sales of DNP's encapsulants, back sheets

and other photovoltaic cell components declined year on year due to the slump in the Japanese market, lower module prices overseas, and other factors.

DNP is one of the world's top suppliers of pouches for lithium-ion rechargeable batteries, which are lighter in weight and easier to process than conventional alternatives. In the fiscal year ended March 2017, the number of pouches used in mobile information terminals increased, but unit prices declined. These trends, combined with a slight increase in pouches used for automotive applications, resulted in a slight decrease in DNP's overall battery pouch sales.

In the fiscal term ended March 2017, in addition to working to make more advanced components for photovoltaic cells and lithium-ion rechargeable batteries, DNP applied its proprietary converting (materials processing) technologies to efforts aimed at developing highly reliable new products. We are also working on expanding our advanced materials business, including high-added value barrier films for industrial use.

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A new challenge for Packaging: Creating the PET plastic bottle of the future

In 2016, some 2 billion polyethylene terephthalate (PET) plastic bottles containing beverages were produced in Japan, and about one third of them were produced using DNP's inline aseptic filling systems.

DNP began selling inline aseptic filling systems using PET bottle preforms in 1997 by emphasizing their environmental appeal. Because the test tube-shaped preforms are only formed into bottles after arriving at the beverage plant, their transport to the plant is about seven times more efficient than the transport of fully formed, empty PET bottles, making it possible to reduce fuel expenses and carbon dioxide emissions related to bottle transport. Also, because the bottles are filled in a sterile environment, they can be made thinner than bottles used in conventional systems where prolonged sterilization at high temperatures was necessary. In 2015, we introduced a 14.6-gram preform bottle for tea-based beverages

and sports drinks. At the time, it was the lightest bottle in its class and has since been adopted to hold many types of soft drinks.

There is a trend toward replacing glass bottles with PET bottles in consideration of the plastic bottles' lighter weight. However, because coloration of PET plastic bottles is prohibited in Japan in order to facilitate recycling, it is extremely difficult to use them for beer or other beverages that must be protected from the effects of light. To address this problem, DNP developed the "DNP Functional Film Complex PET plastic bottle" by covering a conventional preform with special colored film all the way to the bottom and forming the bottle together with the film. In addition to blocking out light, the film also shuts out oxygen and gives the bottle a more pleasing appearance, making this next-generation plastic bottle a winner in terms of both form and function. Because the bottle is still transparent after the film is removed, it can be easily recycled.

DNP will further enhance its market presence by combining original technologies that it has cultivated throughout its history with the advantages of lightweight, breakage-resistant plastic bottles.

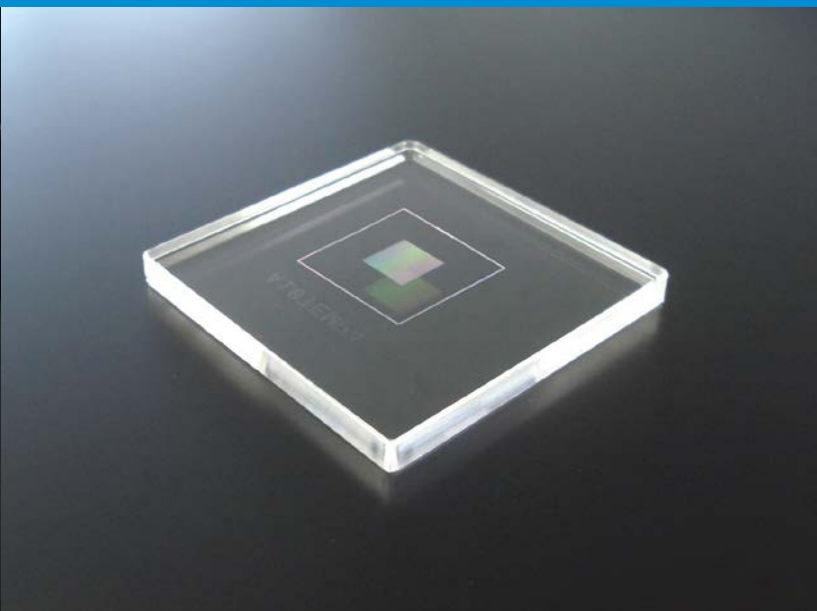


Aseptic filling system for PET plastic bottles



Sample Complex Bottles

Electronics



Left: Inspecting optical film Right: Master template for nanoimprinting

Business Strategies

Modern life has become richer and more convenient due to growing use of digital household appliances, high-definition display products and mobile information terminals including smartphones and tablet PCs. We have reached the point where a huge amount of information circulates in societies where each consumer has a personal information terminal, allowing people to exchange information without being limited by time or space. As a result, demand for easy-to-use electronic devices that make use of cutting-edge technologies is becoming increasingly sophisticated and diverse.

DNP's Electronics segment includes Display Components and Electronic Devices, primarily aimed at the electronic equipment market. The segment refines and combines existing DNP technologies and works to create new core technologies in order to provide products, services, and systems that anticipate changes in the needs of businesses and consumers. In addition, we strive to provide completely new value in fields related to automobiles, smart homes, medicine and health care, the environment and energy, and other new fields by combining multiple technologies such as ultrafine etching and world-class, high-definition patterning technologies.

The segment's market is broadly international and characterized by intense competition over technological development. Nowadays it has become extremely difficult to secure stable profits unless we keep research, development, and capital spending up to date. That is why we keep our eye on next-generation trends in electronic products as we work to develop new products with high added value and exceptional functionality. At the same time, we seek opportunities to speed up business development by actively collaborating with corporate clients and/or companies that have specialized strengths.

In addition to refining and multiplying our existing technologies, we will continue to consider technology licensing-based alliances and to actively develop royalty businesses and similar types of partnerships.

In order to improve profitability, we will continue to minimize costs and improve efficiency, for example by selecting and concentrating on the most promising products in our lineup as we pursue global development that makes the best use of our production bases in Japan and overseas.

Main Policies

1 | Generate value by expanding business, primarily in growth areas

Generate new value that leads to the resolution of social problems by deepening cooperation among business units with respect to our “four growth areas.” Amid developments in the “Internet of things” (IoT) and artificial intelligence, we note particularly strong increases in demand for products such as more advanced, easier-to-use information devices and sensors, and for higher definition, clearer displays. In response, we intend to collaborate with DNP’s Information Communication and Lifestyle and Industrial Supplies segments and to refine and multiply the technologies and expertise that we have cultivated in our own businesses (Display Components, Optical Films and Electronic Devices) in order to continue building new products, services, and business models. As we do so, we plan to actively anticipate consumers’ needs and market trends, to support higher-definition displays that offer a wide range of colors, and to keep pace with diverse and sometimes conflicting demands as various electronic devices become larger, smaller, thinner, lighter, more energy-efficient and provide more advanced functionalities.

Develop various products for use in OLED displays

- OLED displays are attracting attention as next-generation displays with the potential to be adapted to curved surfaces. Researchers are also working on related innovations, such as foldable products. We will work to maintain and expand our share of the OLED display market by boosting production capacity for metal masks used in EL display production, by developing products that support higher resolutions, and by enhancing our production systems so we can offer a more stable supply. In addition to metal masks, we will continue working to develop other components used in OLED display production, such as retardation film and other optical films.

Pioneer new fields by refining and multiplying core technologies

- Regarding liquid crystal color filters, we will focus on areas where demand is expected to grow, such as automotive and medical applications, while we respond to demand for even higher definition small- and medium-sized products.
- We will promote development of automotive-oriented products, such as viewing angle control film that prevents light emitted from car navigation or other in-vehicle displays from being reflected onto the windshield.
- Concerning electronic devices, we will accelerate development of next-generation semiconductor photomasks, provide global support for each client company’s production systems, and endeavor to standardize manufacturing processes. In addition, we aim to expand not only by selling more individual products, such as lead frames and hard disk drive components, but also by increasing solutions-oriented business based on design technologies.

Refine and apply nanoimprinting technologies

- We will focus on manufacturing master templates used in nanoimprint* lithography, a technology for making products that are expected to be in greatly increasing demand, such as 3D NAND flash memories. We will also accelerate

development of “nanoimprinting solutions” for businesses that require microfabrication of non-semiconductor products. In addition to focusing on business development related to sensing, a field that is indispensable to furthering IoT and automation, we will work to develop other new products not related to semiconductors, such as materials used in various types of electronic products including light-emitting diodes, OLED displays and photovoltaic cells, as well as materials related to life science.

2 | Provide value to the global market

- DNP’s Electronics segment serves a broadly international market centered in China and including East Asia, Europe, and North America. As basic technologies rapidly transition from liquid crystal to OLED, we are proceeding carefully with technological development and capital spending while closely watching developments overseas.
- Regarding liquid crystal display-related products, since manufacturers in China and other parts of Asia are increasingly inclined to do more production in-house, we intend to increase collaboration not only by supplying materials and components but also by licensing technology related to liquid crystal color filters. In Electronic Devices, we will develop more global business by cooperating with other companies to establish shared production bases aimed at meeting Chinese demand, and by making good use of European production bases.

3 | Increase corporate value by means of all kinds of structural reforms

Capital investment aimed at production innovation

- Now that advances in the miniaturization of semiconductor products have made the ability to draw circuit patterns with line widths of less than 10nm an essential requirement, we plan to achieve a high level of productivity and enhance our next-generation semiconductor photomask production systems by introducing electron multi-beam mask writers that greatly reduce drawing time.

Promote structural reforms aimed at expanding business

- The electronics business environment changes rapidly. We aim to concentrate allocation of management resources and sharpen our focus on the development of products, services, and systems that can be expected to continue to grow. In addition, we will reconsider our traditional investment recovery-oriented business model according to which we made large-scale capital investments followed by supplying a large number of components. Going forward, we aim to deepen collaboration with customers, suppliers and partners and concentrate on developing process solution services that address overall supply chains, including the supply of materials, designs, and equipment.

* Nanoimprinting: microfabrication technology used for reliably transferring patterns with line widths measured in microns (μm = 1 millionth of a meter) or nanometers (nm = 1 billionth of a meter) by pressing templates onto resin-coated substrates or other surfaces

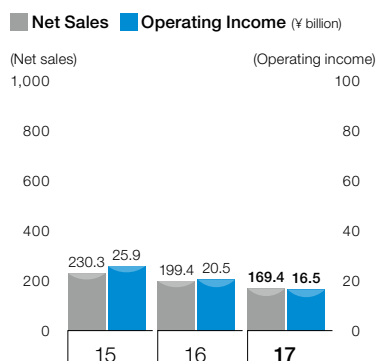
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Electronics

Financial Results

Financial Highlights

	(¥ billion, %)		
	2015.3	2016.3	2017.3
Net sales	¥ 230.3	¥ 199.4	¥ 169.4
Operating income	25.9	20.5	16.5
Operating income margin	11.2%	10.3%	9.7%



[Net Sales]

DNP enjoyed strong sales of metal masks used in the manufacture of OLED displays, which are expected to outperform liquid crystal displays (LCDs) in the future. However, sales of color filters used in LCDs declined: both small- and medium-sized products used in smartphones and tablet PCs, and large products used in televisions. Sales of film for polarizing plates, the mainstay of our optical film business, also declined, and sales of photomasks used for making semiconductors were sluggish both overseas and in Japan.

Overall, Electronics segment sales declined 15.0% from the previous year to 169.41 billion yen.

[Operating Income]

Depreciation and amortization expenses declined year on year by 2.92 billion yen, mainly due to decreased large-scale capital spending and sales of surplus equipment. However, operating income decreased 19.6% from a year earlier to 16.48 billion yen due partly to smaller net sales and lower unit prices resulting from increased competition. The segment's operating income margin decreased by 0.6 point, from 10.3% a year earlier to 9.7%.

Fiscal Term through March 2017: Business Environment and Summary of Financial Results

| Display Components

In calendar 2016, despite an increase in demand for high-definition liquid crystal display (LCD) televisions in emerging markets—primarily in Asia—overall worldwide shipments of flat-panel displays were little changed from the previous year, at about 240 million units. Shipments of tablet PCs were also little changed from 2015, at around 200 million units, while shipments of personal computers fell about 6% year on year to 260 million units. More widespread use of smartphones led to an increased sense of market saturation: roughly 1.47 billion units were shipped worldwide, which indicates that the pace of increase is slowing. Amid these market trends, major LCD manufacturers are hard pressed to turn profits and some have announced production line closures or even withdrawal from LCD television production. Not only in Japan, but also in China, South Korea, and other Asian countries, significant changes in manufacturing systems are occurring. At the same time, the industry is moving toward using OLED displays in smartphones, and it has become difficult to predict demand for various types of optical films and other components related to LCD and OLED displays.

Given this situation, DNP focused LC color filter production on its 8th-generation manufacturing lines, which make large-scale panels used in 4K ultra HD televisions, but sales of large filters fell below previous-year levels along with medium-sized and small products. Regarding optical films, sales of our mainstay anti-reflection films used for televisions and smartphones declined relative to a year earlier. Meanwhile, spurred by growing demand for OLED displays, we enjoyed year-on-year growth in sales of metal masks used in their production, and maintained a large share of the market for these products which make use of DNP's proprietary advanced photolithography and etching technologies.

By the end of fiscal 2017 we plan to transfer color filter manufacturing equipment from our Mihara Plant in Hiroshima Prefecture to a manufacturer in China that makes glass for LCDs. Going forward, we will continue to benefit from business opportunities presented by growth in the Chinese LCD market by providing technical and other types of support.

We will also focus on developing new products and work to expand such businesses as LCD color filters that combine high brightness with energy efficiency, components for high-definition, high-end smartphones, and various products used in in-vehicle displays. Regarding OLED displays, we intend to maintain and expand our dominant share of this market by boosting production capacity for metal masks in response to growing demand.

Electronic Devices

The global semiconductor market in calendar 2016 grew by 1.1% over the previous year, to a record high of 338.9 billion dollars. Demand increased mainly in the U.S. and China, in various fields including smartphones and other telecommunications equipment, digital appliances, and automobiles.

In the fiscal year through March 2017, DNP's Electronic Devices business was affected by an increasing tendency among manufacturers—mainly overseas semiconductor manufacturers—to produce photomasks in-house. In Japan, demand for photomasks used for flash memories fell short of initial forecasts, and we were not able to achieve full-scale mass production.

Going forward, we expect to see further progress in the “Internet of things” (IoT), which will link many physical objects via the Internet. Automobiles are turning into information terminals that can receive all types of services, and automated driving

technology is advancing, opening up new pathways for the expansion of DNP's advanced photomasks and various electronic device businesses. We will work on technological development with an emphasis on providing state-of-the-art photomasks for flash memories and other applications. Concerning the use of nanoimprinting technologies in ultrafine processing, we are especially keen to offer nanoimprinting innovations that comprehensively support every aspect of production, including planning and development of applications and products, design and production of dies and prototypes, and mass production. We also plan to develop new products outside of the semiconductor arena, such as medical materials and other products in the field of life science.

Regarding lead frames, as trends in the IoT and in-vehicle fields affect the semiconductor package market, we will focus especially on boosting our share of compact quad-flat no-leads packages (QFNs) that meet the market's demands for increasing miniaturization and density and decreasing thickness.

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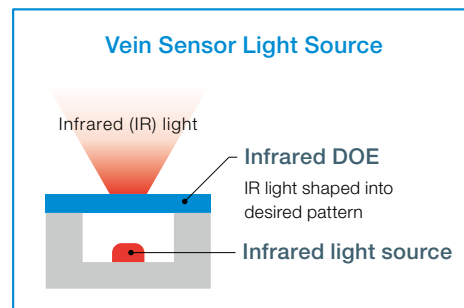
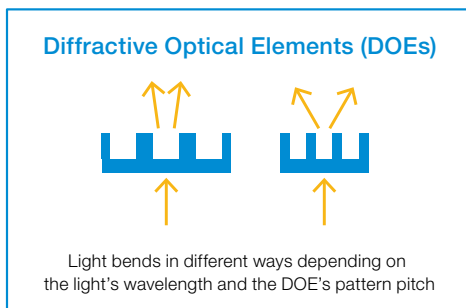
Applying nanoimprinting technology: Startup of volume production of optical elements

DNP plans to start applying nanoimprinting* technology to the mass production of diffractive optical elements (DOEs) for compact light sources used in such applications as vein authentication systems in tablet PCs.

Demand for more sophisticated sensing and information security has been increasing in recent years in line with growing use of network services and the “Internet of things (IoT).” Infrared radiation—which has longer wavelengths than light that is visible to the human eye—has become particularly widely used in various sensing and biometric authentication applications. Radiating infrared light in specific shapes increases the efficiency and performance of sensors' readings, etc., but in order to design and regulate the light's direction, intensity and optical illumination patterns, it is necessary to narrow the pitch of the optical element's concavo-convex pattern and to fabricate the staircase patterns. It is very difficult to create the required deep, thin and staircase shapes, so it is necessary to use advanced nanoimprinting technologies for template processing and mass production. In order to meet these challenges and enable mass production of optical elements with the desired properties, DNP employed proprietary nanoimprinting technologies that we developed ourselves.

DNP entered the semiconductor photomask business in the latter half of the 1950s. By applying high-precision patterning technologies that we cultivated through that business, we began research and development of nanoimprinting in the early 2000s. After that, we succeeded in developing and owning relevant basic technologies, to the point that we can now optimally design the full gamut of manufacturing processes including mold, nanoimprinting, and material design. In addition, we own the optical design technologies necessary for creating the various optical illumination patterns that client companies request each time we develop a new optical element. By enhancing and synergizing these technologies, DNP enables the design and manufacture of optical elements compatible with various light sources including lasers and LEDs. By starting optical element mass production that uses nanoimprinting technology, we will be responding to a number of needs including demand for miniaturization as well as for improving the performance and efficiency of all types of optical sensing devices and lighting equipment.

* Nanoimprinting: a microfabrication technology for reliably transferring ultrafine, concavo-convex patterns with line widths measured in units ranging from nanometers (nm, one billionth of a meter) to micrometers (μm, one millionth of a meter) from a template to a resin-coated or other substrate by pressing the template against the substrate as if pressing a rubber stamp



How DNP Works to Achieve Sustainable Development

CSR

DNP's Three Corporate Responsibilities

—Remaining a company that is trusted by society—

DNP aims to remain a company that can always be fully trusted by its various stakeholders. In order to achieve that goal, we will work toward complete fulfillment of our “three corporate responsibilities:” value creation, integrity of conduct, and transparency (accountability).

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Corporate Governance

Based on DNP Group Vision 2015, DNP has endeavored to improve corporate governance by establishing and operating systems that facilitate accurate and coordinated managerial decision-making, appropriate and prompt business execution based on management decisions, and supervision and auditing of the above processes.

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1

DNP's Three Corporate Responsibilities

Value Creation



- Contributing to social development
- Research and development
- Creation of intellectual property, etc.

A company's first and most fundamental social responsibility is to provide value for society. We must realize the connection between offering products and services necessary to the sustainable development of society and

achieving growth for the company. By making our Business Vision a reality, DNP will continue to provide a high degree of value that helps resolve social problems.

2

DNP's Three Corporate Responsibilities

Integrity of Conduct



Respect for human dignity and diversity



Creating safe and vibrant workplaces



Ensuring the safety and quality of products and services



Information security

The second responsibility is practicing fairness and impartiality during the value creation process. Regardless of how superior or useful to society the value produced may be, that value will be compromised if, for example, the environment is damaged or laws are broken in the process of creating it. DNP seeks to fulfill its responsibilities by ensuring that all of its employees always act with integrity in accordance with the DNP Group Code of Conduct.



Promoting social responsibility throughout the supply chain



Environmental conservation and realizing a sustainable future



Contributing to society as a good corporate citizen

3

DNP's Three Corporate Responsibilities

Transparency (Accountability)



Proper disclosure of information

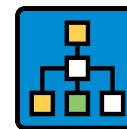
The third corporate responsibility is to achieve accountability and be a highly transparent company. DNP achieves accountability by having all employees, during the course of

their daily work, engage in dialogue with stakeholders; this entails both listening to stakeholders' opinions and providing correct information.

Prerequisites for fulfilling our three responsibilities



Compliance with laws and social ethics



Construction of systems that support business continuity



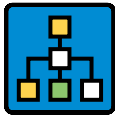
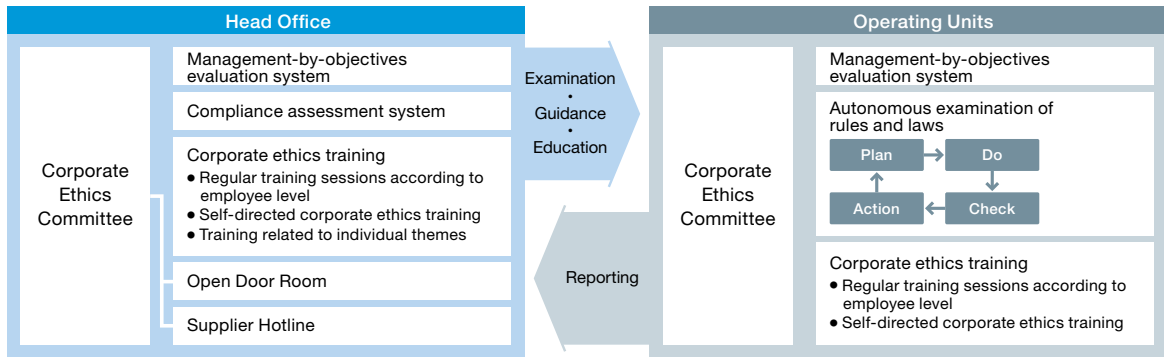
Prerequisites for fulfilling our three responsibilities

Compliance with Laws and Social Ethics

Rather than simply having each of our employees comply with laws and regulations in the execution of DNP's business activities, we believe that DNP can win society's trust by maintaining even higher ethical standards than society expects and by consistently remaining fair and equitable as

we help to maintain and develop orderly, free and competitive markets. In order to be able to act in ways that meet society's expectations, DNP works to imbue corporate ethics throughout the DNP Group.

Systems for Promoting Absolute Corporate Ethics

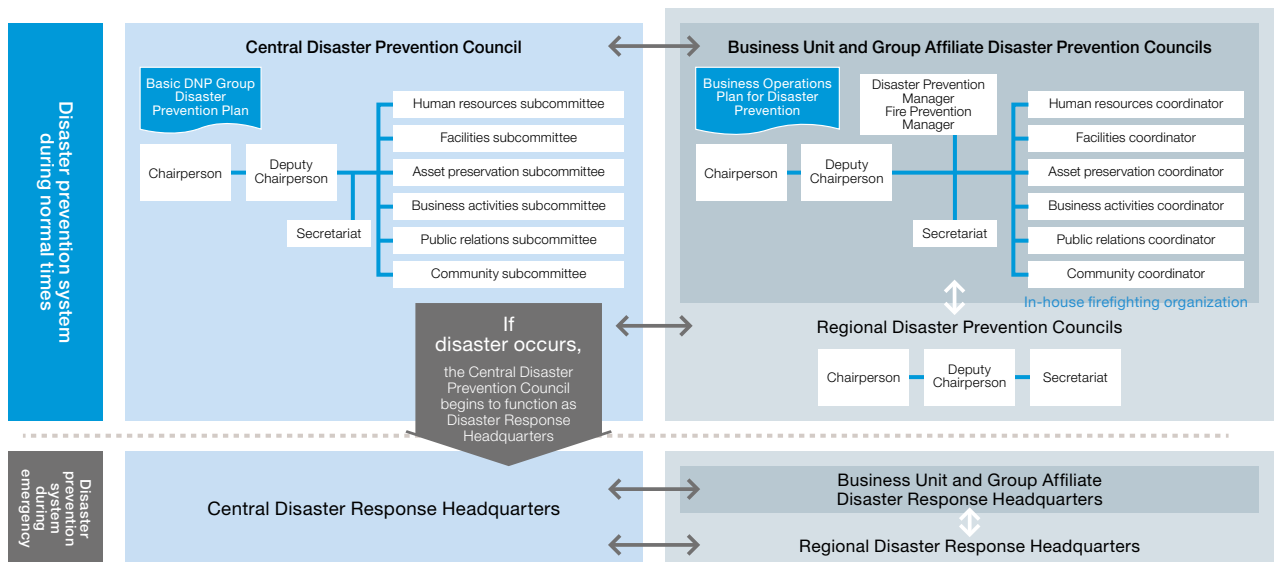


Prerequisites for fulfilling our three responsibilities

Construction of Systems that Support Business Continuity

In the event that an emergency situation should compromise the continuity of DNP's business operations, any interruption in our operations would affect not only DNP but our customers, suppliers, their employees and a variety of stakeholders. DNP has prepared a business continuity plan in order to build a strong corporate structure that can

continue operating under crisis conditions and quickly restore operations in the event of an interruption. We maintain a proper awareness of disaster risk in the course of our daily operations, and we implement employee training and other measures aimed at enabling us to cope appropriately in extreme situations.



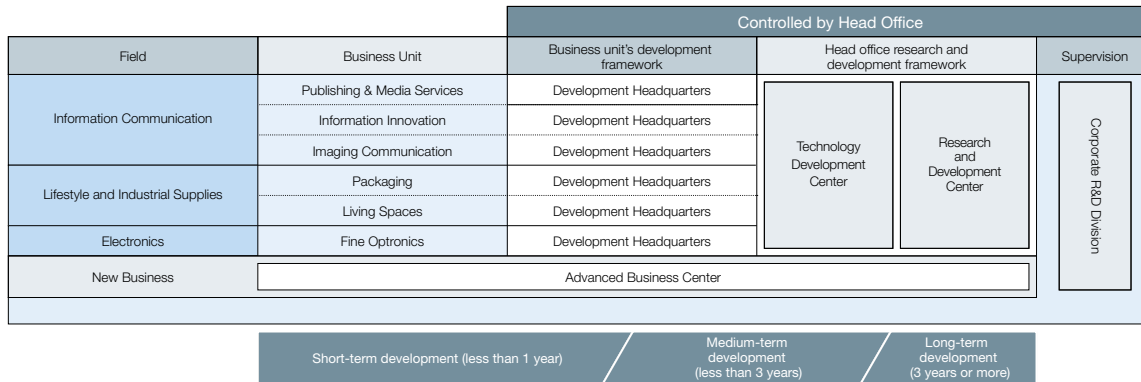


Our 1st responsibility

Contributing to Social Development: Research and development

Given that DNP has expanded its fields of business by developing applications for printing and information technologies, research and development are extremely important to us. In today's rapidly changing world, we need to take consumers' point of view, look carefully at what is happening in society, and be quick to discern existing

problems and the technologies that are needed to solve them. Having done so, we then develop our own original technologies while also actively pursuing alliances with other companies that have special strengths in order to speed up technological development.



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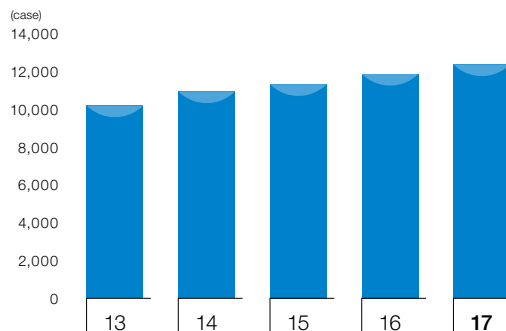
Our 1st responsibility

Contributing to Social Development: Intellectual property

In our view, intellectual property initiatives provide a basic underpinning for a wide range of business activities and are indispensable as we work to differentiate DNP from competitors. Because the competitive standing of our

intellectual property greatly affects DNP's business, we work at generating high-quality patents and making maximum use of our intellectual property in our business operations.

Number of Japanese patents held (As of March 31, 2017)





Our 2nd responsibility

Information Security

Information security and the protection of personal information have become more important than ever. Because DNP handles a large volume of personal information and other information assets, proper management and protection of information assets are critical tasks that can

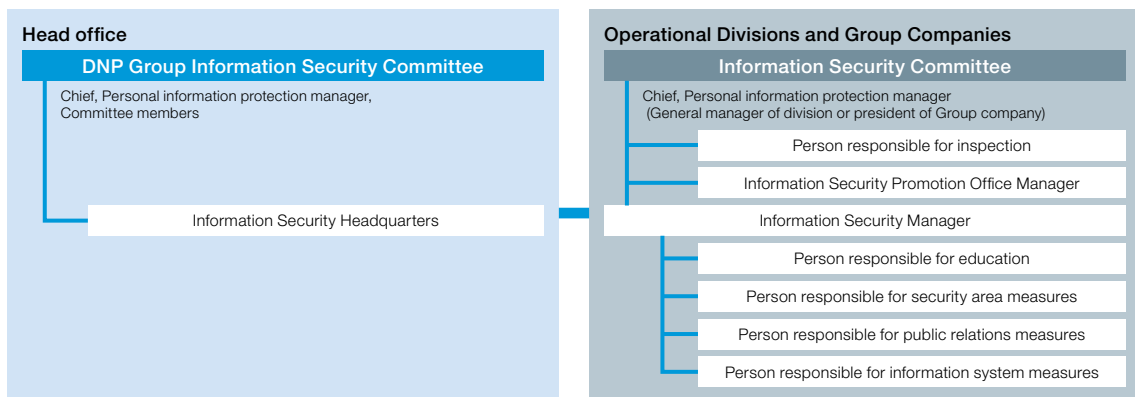
even be called part of our social mission. DNP positions information security initiatives among management's top-priority concerns as we work to strengthen our information security-related frameworks and educate employees about protecting information.

| The DNP Group's Basic Policy on Information Security, and Personal Information Protection Policies

It is obvious to us that we have a responsibility to protect personal information, data entrusted to us by corporate clients, and other information assets. We have established policies related to information security and personal

information protection. We maintain strict and continuous control by strengthening related systems and educating employees, etc.

| Information Security Management Framework



TOPICS

Strengthening cyber-security measures

Now that cyber attacks are becoming increasingly artful and complex, it is no longer sufficient to rely solely on conventional border protection measures aimed at not allowing threats to enter a company's computer systems. DNP is using the technologies and expertise that it has cultivated through its businesses to construct multilayered countermeasures that combine—in addition to the conventional "entrance measures" that address things like system vulnerabilities and keeping out viruses—"inside measures" for preventing and/or containing damage in the event that an intruder does manage to infiltrate the system, and "exit measures" that prevent information from being illicitly transmitted outside the system. DNP promotes "security by design," whereby protective functions are built into a computer system from the design and development stages, as well as measures for counteracting new threats, such as periodic inspection of systems already in use to check for vulnerabilities.

DNP is also focusing on developing human resources capable of contributing to cyber security, for example by implementing training for its own employees through DNP Group company Cyber Knowledge Academy Co. Ltd., which provides educational programs for training personnel to counter cyber attacks.

In addition, we belong to the Nippon CSIRT Association, whose many corporate members aim to cooperate and share information regarding instances when information security has been breached.

Through efforts like these, DNP is further fortifying its security systems in order to resist increasingly sophisticated cyber attacks, and is preparing to quickly detect and defuse attacks should they occur.



A class at Cyber Knowledge Academy, which trains personnel to counter cyber attacks



Our 2nd responsibility

Environmental Conservation and Realizing a Sustainable Future

As a manufacturer, DNP always considers how to coexist with the Earth's environment. The most urgent problem facing humanity in the 21st century (sometimes called "the environment century") is how to coexist with nature and preserve its gifts so that we can pass them on to the next generation. One of the values set forth in the DNP Group

Code of Conduct is to help realize a sustainable society so that we can pass on an abundant Earth to future generations. The entire DNP Group is working to achieve that goal, for example by preventing global warming, protecting biodiversity, and using resources efficiently.

Environmental Targets to Achieve by the Fiscal Term through March 2021

Environmental issue	Target for fiscal term through March 2021
Global warming prevention	Reduce greenhouse gas emissions by 10% worldwide compared to fiscal term ended March 2006
Reducing negative environmental impact of transport	Reduce per-unit fuel usage for transport (amount of transport fuel/net sales) by 1% per year; reduce by 10% compared to term ended March 2011
Volatile organic compounds (VOCs)	Reduce all VOC (except methane) emissions by 35% relative to fiscal term ended March 2011
	Outside Japan, prepare to reduce VOC emissions by introducing helpful technologies and reducing emissions as much as possible in addition to complying with local laws
Industrial waste reduction	Reduce per-unit waste generation (amount of waste generated/production amount) by 20% worldwide compared to fiscal term ended March 2011
	Maintain zero waste generation for DNP Group within Japan
Water conservation	Reduce per-unit water usage (amount of water used/net sales) by 25% worldwide compared to fiscal term ended March 2011
Development and sales of environmentally conscious products and services	Achieve 600 billion yen in sales of environmentally conscious products and services
Environmental conservation	Maintain air, water, odor, noise and vibration pollution at no more than 70% of the permitted levels
Office environment	Wastepaper sorting and recovery rate of at least 70% relative to general waste

TOPICS

DNP receives the 26th Grand Prize for Global Environment Award, Japan Business Federation Chairman's Prize

When applied to window glass, DNP Lighting Film effectively reflects and diffuses sunlight to make room interiors brighter. In recognition of the film's contribution to reducing electric power consumption and making living spaces more pleasant, DNP was awarded the 26th Grand Prize for Global Environment Award, Japan Business Federation Chairman's Prize.

DNP makes two types of this film, one for sandwiching between two sheets of glass during the manufacturing of laminated glass, and another for applying to window glass that is already in place in a building. After we applied DNP Lighting Film to laminated glass used in windows installed on the northern side of a building where there was little sunlight, brightness in the room roughly doubled^{*1}, and the cost of electricity required for lighting decreased by about 13%^{*2}.

DNP Lighting Film makes use of optical design and microfabrication technologies that DNP cultivated while making optical films for display products. By optimizing the optical characteristics and structure of the material used for this product, we designed it to efficiently take in sunlight all year round. Because effective use of natural light leads to reduced power consumption and more pleasant living spaces, more and more homes, offices,

shops and hospitals, etc. are adopting this type of lighting film.

Since DNP positions Environment and Energy as one of our targeted growth areas, we are working to develop new products and services that simultaneously enable economic growth and environmental preservation. Moreover, since we benefit from the bounty of nature throughout our business activities, from procurement of raw materials to product manufacturing and disposal, we are constantly considering how to coexist with the global environment. We mobilize our entire corporate Group to engage in environmental activities aimed at building a sustainable society.

*1 Study conducted by DNP: maximum values measured between 9 am and 6 pm on June 5, 2015

*2 Study conducted by DNP: measured between 9 am and 6 pm on July 2, 2015



April 10, 2017 award ceremony: Prince and Princess Akishino sitting at table, DNP Executive Vice President Yoshinari Kitajima at left

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Corporate Governance

"DNP" refers to Dai Nippon Printing Co., Ltd. in this section.
(As of June 29, 2017)

1. Corporate Governance

Fundamental philosophy

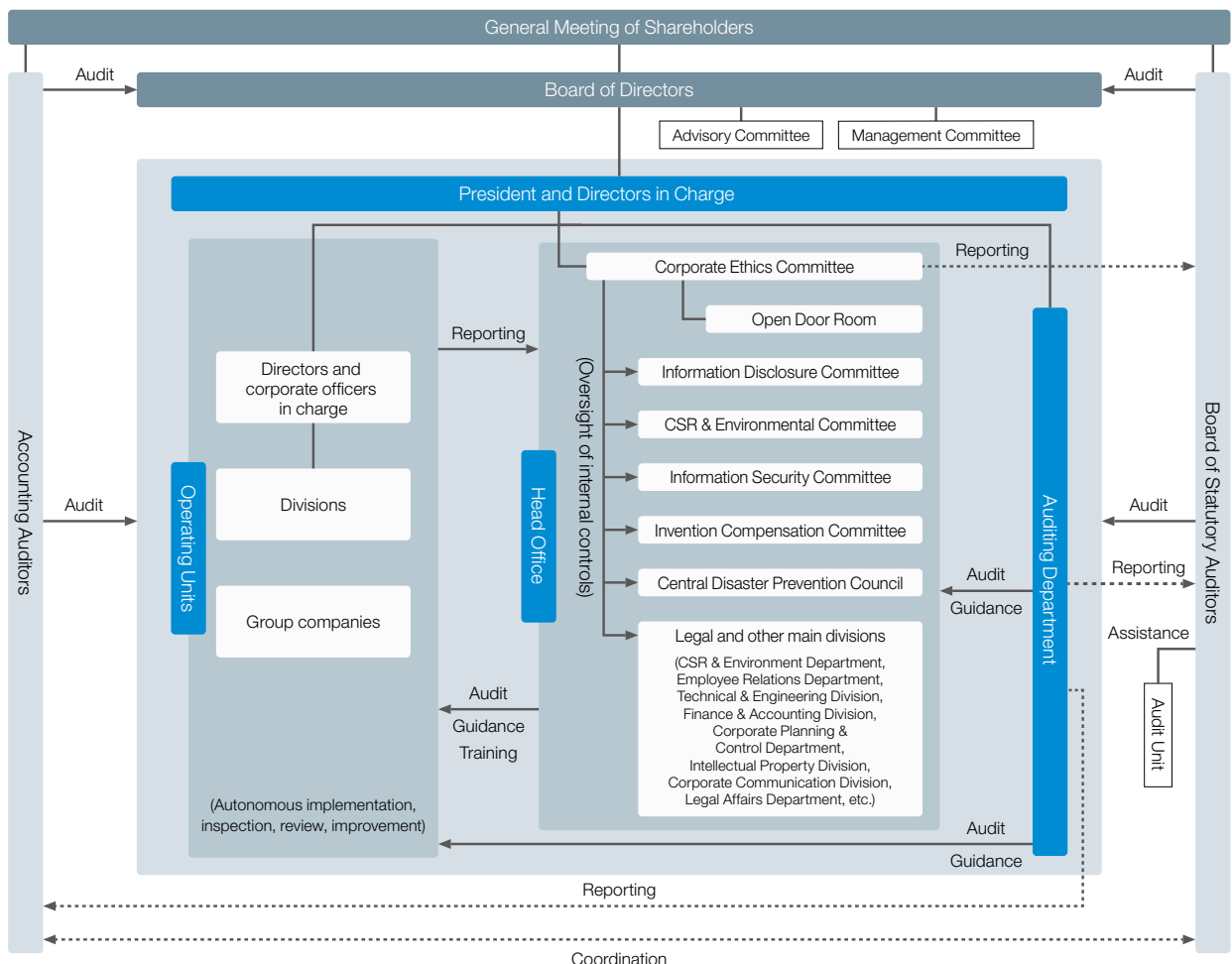
DNP seeks to improve earning power and capital efficiency in order to support sustained growth and increase enterprise value over the medium to long term. We established DNP Group Vision 2015, which states our corporate philosophy as: "The DNP Group connects individuals and society, and provides new value." We are

preparing an environment to allow directors to boldly pursue various business opportunities based on a healthy entrepreneurial spirit and to effectively supervise business operations, primarily in the four growth areas of "Knowledge and Communication," "Food and Healthcare," "Lifestyle and Mobility," and "Environment and Energy." We recognize that to increase our business competitiveness in the future, we must fulfill our corporate social responsibilities (CSR) and win the trust of our various stakeholders, including shareholders, customers, consumers, and employees. To this end, we regard improvement in corporate governance, including internal control systems, as a top management priority. We establish and operate systems that enable precise managerial decision-making, prompt and appropriate business execution based on these decisions, and supervision and auditing of these processes. We also conduct thorough training and education to improve each employee's awareness of compliance issues and we strive to improve our overall corporate governance.

DNP's corporate governance structure

DNP's corporate governance and internal control system will have the following structure from June 29, 2017.

<Structure diagram>



Management and business execution structure, audit structure

- DNP's organization is designed to allow directors with specialized expertise and experience in a wide range of business fields to participate in management decisions, to take responsibility and authority as they execute their work, and to supervise the work of other directors. We are working to enhance our decision making and supervisory capabilities from a company-wide perspective by appointing directors in charge of each management function. Independent outside directors also participate in decision-making in order to facilitate prompt and precise management decisions and smooth execution of those decisions, and to further strengthen proper supervisory functions. Corporate officers appointed by the Board of Directors have the responsibility and authority to execute business decided by the Board of Directors.
- In order to nimbly construct optimal management systems for responding to changes in the business environment, and to further clarify management responsibility for each fiscal year, we set the term of office for directors and corporate officers at one year.
- The Board of Directors consists of 12 directors, including two independent outside directors, and the Board ensures that meetings are run appropriately based on the Board of Directors Regulations. The Board meets once a month, in principle, to discuss and decide on important business matters. Corporate officers may also attend meetings as needed to provide reports. To speed up the Company's activities and make them more efficient, DNP has also established a Management Committee consisting of directors at the senior managing director level and above. The committee meets once a month, in principle, to review and discuss management policies, strategies, and important business matters. Decisions about director compensation, designation of director candidates, and other such matters are made in light of the advice and opinions of an Advisory Committee comprised of independent outside directors in an effort to increase the transparency of the decision making process.
- DNP has in place a Board of Statutory Auditors that consists of five auditors, including one auditor with considerable knowledge of finance and accounting and three outside auditors. In accordance with auditors' prescribed audit criteria and responsibilities, the statutory auditors conduct audits of the directors' management of day-to-day operations and, as necessary, seek information from the directors and corporate officers regarding business operations.
- DNP provides in its Articles of Incorporation for the ability to conclude limited liability agreements based on laws and regulations in order to allow directors (excluding executive directors, etc.) and statutory auditors to adequately fulfill their expected roles and to ensure useful personnel in the future. DNP and its directors (excluding executive directors, etc.) and statutory auditors have concluded agreements that limit the directors' and auditors' liability for damages within the parameters set forth in Article 423, Paragraph 1 of Japan's Companies Act, so long as they perform their duties in good faith and without serious negligence.

Reasons for choosing this structure

We ensure that the Board of Directors acts appropriately, agilely, and flexibly by adopting the organizational structure of a company with a Board of Statutory Auditors, as noted above, by introducing an independent outside director and corporate officer system, and by establishing and operating discretionary committees. We believe that adopting this corporate governance structure will allow the Company to sustain growth and increase enterprise value over the medium to long term.

Internal control and risk management systems

The following provides an overview of the various systems that we have established to ensure appropriate business conduct at DNP and the corporate group comprising DNP and DNP subsidiaries (DNP Group), and an overview of the operation of these systems.

(1) System for ensuring that directors and employees of DNP and DNP subsidiaries perform their duties in compliance with laws and regulations and the Articles of Incorporation

- a. We established the DNP Group Code of Conduct to govern the conduct of all employees (including directors). We distribute this code to all employees of the DNP Group and conduct training and take other action to promote a full understanding of this code.

[Summary of operation]

We promote a full understanding of the DNP Group Code of Conduct through various training sessions and other activities carried out mainly by DNP's Corporate Ethics Committee.

- b. In principle, the Board meets once a month. Based on the Company's Board of Directors Regulations, the directors ensure that meetings are appropriately run and supervise each other in day-to-day operations. We appoint independent outside directors to ensure that the Board of Directors performs its duties in compliance with the law. Executive directors exercise their authority according to the Organization Rules, Work Authority Regulations, Proposal System Regulations, and other internal company rules; and they prevent acts in violation of laws, regulations, and the Articles of Incorporation by supervising the business execution of the corporate officers and general managers responsible for DNP's various organizational units.

DNP is a company with a Board of Statutory Auditors. Statutory auditors, including independent outside statutory auditors, audit the performance of duties by directors according to the audit criteria and responsibilities prescribed by DNP's Board of Statutory Auditors.

[Summary of operation]

The Board of Directors met 10 times during the fiscal year ended March 2017. The Board held discussions, made decisions, and took appropriate actions on important matters based on the Board of Directors

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Regulations. Executive directors exercise their authority according to various rules and regulations, and they supervise the business execution of the corporate officers and general managers responsible for DNP's various organizational units. DNP's two independent outside directors supervise the business execution of directors.

Statutory auditors audit the performance of duties by directors according to the audit criteria and responsibilities prescribed by DNP's Board of Statutory Auditors.

- c. DNP's Corporate Ethics Committee is responsible for establishing and operating systems and other mechanisms to ensure appropriate business conduct within the DNP Group, based on the DNP Group's Basic Compliance Management Regulations.

[Summary of operation]

DNP's Corporate Ethics Committee meets once a month to oversee the establishment and operation of systems and other mechanisms to ensure appropriate business conduct within the DNP Group.

- d. Under the general oversight of DNP's Corporate Ethics Committee, the Information Disclosure Committee, CSR & Environmental Committee, Information Security Committee, Invention Compensation Committee, Central Disaster Prevention Council, and various head office organizations responsible for specific laws and regulations conduct reviews, provide guidance, and offer training in their areas of specialty to other organizational units and Group companies.

[Summary of operation]

The various special committees, Central Disaster Prevention Council, and various head office organizations responsible for specific laws and regulations conduct reviews, provide guidance, and offer training as appropriate through field inspections, group training sessions, and other means to other organizational units and Group companies.

- e. The general managers of DNP's various organizational units independently determine, implement, check, evaluate, and improve the systems and procedures required for their own units, based on the DNP Group's Basic Compliance Management Regulations and in light of the specific operations of their unit.

[Summary of operation]

DNP's various organizational units independently determine and implement the systems and procedures required by their unit. Each organizational unit confirms the operation of these systems and procedures. Each unit compiled the results of its independent checks, evaluations, and improvements made through the end of the fiscal year ended March 2017 into a Unit Confirmation Report, and provided the report to DNP's Corporate Ethics Committee. The Corporate Ethics Committee conveyed these results to relevant head office organizations, and these head office organizations confirmed conditions and provided

guidance and training as needed.

- f. DNP's Auditing Department is independent from operating units, and based on the Internal Audit Regulations, it conducts internal audits and provides guidance to DNP's various organizational units and group companies regarding the establishment and operation of systems and other mechanisms to ensure appropriate business conduct.

[Summary of operation]

DNP's Auditing Department is independent from operating units and conducts internal audits and provides guidance to DNP and DNP Group companies, in accordance with an audit plan. The results of the Auditing Department's internal audits and guidance are reported to DNP's President, statutory auditors, and accounting auditors.

- g. DNP's Corporate Ethics Committee established the Open Door Room as an internal and external whistleblowing forum for the DNP Group. It also established the Supplier Hotline as a means to receive information from material suppliers and contractors. It uses these to obtain information about legal violations and other such actions by employees and to respond to this information (including by not providing unfair treatment to whistleblowers).

[Summary of operation]

We seek to publicize and gain widespread recognition of this whistleblower system and to use it appropriately.

- h. We establish, operate, evaluate, and report on internal controls for financial reporting based on the Basic Policy and Basic Plan for Establishing, Operating, and Evaluating Internal Controls for Financial Reporting, as stipulated by DNP's Board of Directors. We thereby ensure compliance with laws and regulations and reliability in financial reporting.

[Summary of operation]

DNP works to ensure compliance with laws and regulations and reliability in financial reporting by establishing internal controls for DNP and DNP Group companies and evaluating their operation based on the Basic Policy and Basic Plan for Establishing, Operating, and Evaluating Internal Controls for Financial Reporting.

- i. To sever relations with antisocial forces, we stipulate in the DNP Group Code of Conduct that the Company shall not engage in any activities with antisocial forces. In addition to complying with this stipulation, we work with our various business partners to create an arrangement enabling a severing of relations in the event that a business partner is found to be an antisocial force. The DNP Group will also strengthen ties with outside organizations, including the police and law offices, to guard against inappropriate demands made by antisocial forces.

[Summary of operation]

DNP actively seeks to sever relations with antisocial forces, and we make ongoing efforts with our various business partners to create an arrangement enabling a severing of relations in the event that a business partner is found to be an antisocial force. We are also working to strengthen ties with outside organizations, including the police and law offices, to gather information about antisocial forces and to guard against inappropriate demands made by antisocial forces.

(2) Regulations and other systems for managing the risk of losses at DNP and DNP subsidiaries

To manage risks that could have a serious impact on the business of the DNP Group, including those related to compliance, information security, environment, disasters, product safety, insider trading, and export control, DNP's Corporate Ethics Committee, various special committees, and other head office organizations establish regulations and conduct training in an effort to prevent risks from occurring. When risks do occur, we respond quickly to avoid or minimize losses to the DNP Group. Additionally, under the general oversight of DNP's Corporate Ethics Committee, we regularly take inventory of risks and designate organizations and responsible directors to quickly respond to any new risks that could have a serious impact on our business.

[Summary of operation]

DNP's Corporate Ethics Committee, various special committees, and other head office organizations identify risks that could have a serious impact on our business and designate organizations and responsible directors to respond to these risks. Special committees and head office organizations evaluate compliance in relation to these risk and work to prevent risks from occurring. We report the details of these activities to DNP's Corporate Ethics Committee.

(3) System for ensuring that directors of DNP and DNP subsidiaries perform their duties efficiently

- a. The Board of Directors meets once a month, in principle, and also holds meetings as needed, providing a basic system for ensuring that directors perform their duties efficiently. Additionally, to contribute to fair and efficient decision making, we established the Advisory Committee comprised of independent outside directors to provide advice and opinions on important matters, including director compensation and designation of director candidates. The Management Committee comprised of senior managing and higher directors meets once a month, in principle, to examine and discuss important business matters.

[Summary of operation]

In addition to the operation outlined above in (1) b., our Advisory Committee held discussions and offered advice and opinions about important matters,

including director compensation and designation of director candidates. Additionally, the Management Committee met 19 times during the fiscal year ended March 2017 to examine and discuss important business matters.

- b. We seek to improve the efficiency of business execution by allowing executive directors to perform their duties based on decisions by the Board of Directors by appropriately delegating authority to the corporate officers and general managers responsible for DNP's various organizational units, within the scope provided for in the Organization Rules, Work Authority Regulations, Proposal System Regulations, and other internal company rules.

[Summary of operation]

DNP seeks to enhance the efficiency of business execution by preparing various rules to appropriately delegate the authority of executive directors to the corporate officers and general managers responsible for DNP's various organizational units.

- c. To ensure that directors at Group companies perform their duties efficiently, we seek to enhance the efficiency of business execution by providing guidance to enable Group companies, accounting for their size and other specific attributes, to independently hold Board of Directors meetings at their discretion based on the Board of Directors Regulations, and to appropriately delegate authority based on the Organization Rules, Work Authority Regulations, Proposal System Regulations, and other internal company rules.

[Summary of operation]

Group companies are working to enhance the efficiency of business execution by directors by establishing appropriate rules in light of their business portfolio, size, and other attributes.

(4) System for storing and managing information related to the performance of duties by DNP's directors

We record information related to the performance of duties by directors in the Board of Directors meeting minutes, special committee meeting minutes, proposal documents, other paper documents, and electronic documents. Additionally, in accordance with the Basic Information Security Rules, Document Control Standards, and Electronic Data Control Standards, we appropriately and safely store and manage in an easily searchable format the paper and electronic documents in which this information is recorded for a period of time stipulated in these rules and standards.

[Summary of operation]

We record information related to the performance of duties by directors in paper and electronic documents, and appropriately store and manage these documents in the responsible organization according to various regulations.

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(5) **System for ensuring appropriate business conduct by the corporate Group comprising DNP and DNP subsidiaries**

a. To ensure appropriate business conduct in the DNP Group, we undertake training and other activities so that all DNP Group employees (including directors) gain a full understanding and perform their work according to the DNP Group Code of Conduct. Concerning the establishment and operation of systems and other mechanisms to ensure appropriate business conduct, we established the DNP Group's Basic Compliance Management Regulations and the Affiliated Company Management Regulations, and provide guidance to Group companies to help them establish their own rules and regulations based on the above.

[Summary of operation]

In addition to the operation outlined above in (1) a., Group companies establish their own rules and regulations under the direction of relevant head office organizations and based on the DNP Group's Basic Compliance Management Regulations and the Affiliated Company Management Regulations.

b. We confirm that Group companies, based on the policies outlined in the preceding item, independently establish various rules and regulations, including Proposal System Regulations, that stipulate matters requiring prior consultation or subsequent reporting with the parent company, accounting for each company's size and other specific attributes; that they establish and operate reporting systems to report to DNP about important business execution by directors and other employees of Group companies; and that this business execution complies with laws, regulations, and the Articles of Incorporation and is carried out efficiently. We also provide guidance to help Group companies make independent decisions about the systems and procedures they need in light of their business portfolio, size, and other attributes; and to implement, check, evaluate, and improve their systems and procedures.

[Summary of operation]

Group companies establish various rules and regulations, including Proposal System Regulations, that stipulate matters requiring prior consultation or subsequent reporting with DNP; and establish appropriate systems in light of their business portfolio, size, and other attributes. Group companies confirmed the operation of these rules, regulations, and systems; compiled a Unit Confirmation Report by the end of the fiscal year ended March 2017; and reported to DNP's Corporate Ethics Committee. The Corporate Ethics Committee conveyed these results to relevant head office organizations, and these head office organizations confirmed conditions and provided guidance and training as needed.

c. DNP's Auditing Department, Corporate Ethics Committee, various special committees, and other

head office organizations conduct audits and checks and provide guidance and training in relation to the implementation of the preceding two items.

[Summary of operation]

DNP's Auditing Department, Corporate Ethics Committee, various special committees, and other head office organizations conduct audits and checks and provide guidance and training in relation to the systems of Group companies.

(6) **System for employees who assist DNP's statutory auditors in the performance of their duties and matters related to the independence of these employees from directors**

a. DNP's Board of Statutory Auditors established the Audit Unit and appoints dedicated staff member to assist DNP's statutory auditors in the performance of their duties. To ensure the effectiveness of the instructions given by DNP's statutory auditors to their staff, we grant their staff the authority to appropriately conduct checks and gather information.

[Summary of operation]

DNP appoints one dedicated staff member to assist its statutory auditors. We grant this staff member the authority to appropriately conduct checks and gather information to ensure the effectiveness of his or her work.

b. Audit Unit staff perform their duties under the direction of DNP's statutory auditors. Any personnel evaluation, transfer, reprimand, or other such actions related to this staff requires the consent of DNP's Board of Statutory Auditors.

[Summary of operation]

Audit Unit staff are independent from the direction of directors and perform their duties under the direction of DNP's statutory auditors. Any personnel evaluation, transfer, reprimand, or other such actions related to this staff are taken with the consent of DNP's Board of Statutory Auditors.

(7) **System for directors and employees of DNP and DNP subsidiaries to report to DNP's statutory auditors; policy for expenses incurred as statutory auditors perform their duties; system for other reporting to statutory auditors; and system for ensuring effective auditing by statutory auditors**

a. DNP's statutory auditors at any time deemed necessary can request that directors and employees of the DNP Group provide a report on the performance of their duties; and the directors, employees, or persons receiving reports from these persons will report promptly when requested by DNP's statutory auditors.

[Summary of operation]

Statutory auditors are independent from the direction of directors, and have the authority to request as needed that directors and employees provide reports on business execution at DNP and DNP Group

companies. DNP Group directors and employees respond promptly when requested to report by DNP's statutory auditors.

- b. If a DNP director discovers a legal violation or other matter that could significantly damage the DNP Group, the director will report this matter immediately to DNP's statutory auditors.

[Summary of operation]

We endeavor to make DNP directors fully aware of their reporting obligations to statutory auditors as stipulated in the Companies Act.

- c. DNP's Auditing Department and Corporate Ethics Committee provide regular reports to DNP's statutory auditors about the details of auditing of the DNP Group and the establishment and operation of systems and other mechanisms to ensure appropriate business conduct in the DNP Group.

[Summary of operation]

During the fiscal year ended March 2017, DNP's Auditing Department and Corporate Ethics Committee held meetings with DNP's statutory auditors and provided timely reports to these statutory auditors.

- d. DNP's statutory auditors convene liaison meetings and exchange opinions with statutory auditors at Group companies.

[Summary of operation]

The statutory auditors of DNP and DNP Group companies convene liaison meetings at their discretion and exchange information and opinions.

- e. DNP bears the costs deemed necessary for its statutory auditors to perform their duties, and DNP's Board of Statutory Auditors can request these costs from DNP both before and after the fact.

[Summary of operation]

DNP bears costs related to the work of its statutory auditors within a scope that it deems necessary.

- f. DNP's President conducts regular exchanges of opinion with DNP's Board of Statutory Auditors.

[Summary of operation]

During the fiscal year ended March 2017, DNP's President held meetings and exchanged opinions with DNP's Board of Statutory Auditors.

Internal controls and auditor's auditing

In order to maintain a structure that allows for precise management decision-making, appropriate and prompt execution of business, and inspection and monitoring of these functions, the Corporate Ethics Committee, as the body in charge of internal control, inspects and guides DNP's operating units according to the DNP Group's Basic Compliance Management Regulations, and regularly reports to statutory auditors regarding management conditions. In addition, the Auditing Department (consisting of 12

employees) ensures the propriety of operations by conducting accounting and operational audits based on Internal Audit Regulations and by providing progress reports to the statutory auditors and the accounting auditor.

The statutory auditors hold regular meetings of the Board of Statutory Auditors, work with other statutory auditors to perform their audit duties, and closely cooperate with the accounting auditors by receiving from them an explanation of the audit plan at the start of the fiscal year, assessing audit operations during the fiscal year as appropriate, and receiving a report of audit results at the end of the fiscal year.

DNP's outside directors and outside statutory auditors

DNP has two outside directors and three outside statutory auditors. Outside directors and statutory auditors do not have any particular personal relationships, capital relationships, transactional relationships, or other interests with DNP.

The role of outside directors is to supervise inside directors and contribute to improving the transparency and accountability of the Board of Directors by providing management advice based on their judgment. The role of outside statutory auditors is to enhance the propriety of accounting and operational audits and to supervise management.

- Outside director Tadao Tsukada can participate in business decision making from an objective standpoint that is independent from the Company's management team that executes its business, based on keen insight and broad experience as a distinguished academic. Mr. Tsukada owns 2,000 shares of DNP stock.
- Outside director Tsukasa Miyajima can participate in business decision making from an objective standpoint that is independent from the Company's management team that executes its business, based on keen insight and broad experience as a legal professional. Mr. Miyajima owns 2,000 shares of DNP stock.
- Outside statutory auditor Shin-ichi Ikeda is designated as an independent officer and can help bolster auditing based on a broad knowledge gained from business experience at other companies. Mr. Ikeda owns 2,000 shares of DNP stock.
- Outside statutory auditor Makoto Matsuura is designated as an independent officer and can help bolster auditing based on his legal expertise as an attorney.
- Outside statutory auditor Kuniaki Nomura can help bolster auditing based on his legal expertise as an attorney.

DNP established its own Independence Standards for Independent Officers with reference to stock listing rules and other material in order to avoid conflicts of interest with general shareholders when appointing outside directors and outside statutory auditors. These standards are presented below, and we designate all of our outside directors and outside statutory auditors as independent officers as a result of satisfying these standards.

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DNP's independence standards for independent officers

Independent officers must have a neutral position that is independent from DNP's management team; none of the following conditions may apply.

- (1) An executive of DNP or DNP affiliated company (hereinafter, DNP Group) (person to whom this applies during the past 10 years. Persons who have served as a non-executive director or auditor of the DNP Group during the past 10 years may include those who have served as an executive during the 10-year period prior to their appointment as a director or auditor)
- (2) A major supplier of the DNP Group (supplier group [entity belonging to the consolidated group of the direct supplier] that provides products or services to the DNP Group for which the transaction value of the products or services provided to the DNP Group accounts for over 2% of the supplier group's annual consolidated sales or gross revenues in the most recent fiscal year) or an executive thereof
- (3) A major customer of the DNP Group (customer group that receives products and services from the DNP Group for which the transaction value of the products and services provided to the customer group from the DNP Group accounts for over 2% of the DNP Group's annual consolidated sales in the most recent fiscal year) or an executive thereof
- (4) A major lender to the DNP Group (lender providing loans accounting for over 2% of the DNP Group's total consolidated assets in the most recent fiscal year) or an executive thereof
- (5) A consultant, accounting professional, or legal professional (in the case of an organization, a person belonging to said organization) who receives a large amount of monetary or other consideration other than executive compensation from the DNP Group (person who receives consideration other than executive compensation in excess of the larger of an annual amount of ¥10 million or 2% of the person's sales or gross revenues in the most recent fiscal year)
- (6) A major shareholder of DNP (direct or indirect ownership of 10% or more of total voting rights) or an executive thereof
- (7) An executive at an entity in which the DNP Group is a major investor (direct or indirect ownership of 10% or more of total voting rights)
- (8) A person belonging to an auditing company that performs statutory audits for DNP
- (9) A person to whom items (2) through (8) have recently applied (within one year)
- (10) A relative (within second degree of kinship) of a person (excluding insignificant persons) to whom any of items (1) through (5) apply
- (11) An executive at an entity with mutual appointments of outside officers (person to whom this applies during the past 10 years)
- (12) An entity that receives donations from DNP (average donation during the past three fiscal years that is the higher of an annual amount of ¥10 million or 2% of the recipient's annual gross revenues) or an executive thereof (person to whom this applies during the past 10 years)

Compensation paid to directors and statutory auditors

- (1) Total compensation paid by DNP, by category of director/statutory auditor, total compensation by type, and the number of directors and statutory auditors covered

Category of director/ statutory auditor	Total compensation (¥ million)	Total compensation by type (¥ million)		Number of directors and statutory auditors covered
		Base compensation	Bonus	
Directors (excluding outside directors)	1,033	855	178	16
Statutory auditors (excluding outside auditors)	58	58	—	2
Outside directors and auditors	110	110	—	5

Notes: 1. Bonuses are provisions for bonuses for directors and statutory auditors for the fiscal year ended March 2017.
2. There were 10 internal directors, two internal statutory auditors and five outside directors as of the end of the fiscal year ended March 2017.

- (2) Company directors and total compensation

Name (director type)	Total compensation (¥ million)	Company	Total compensation by type (¥ million)	
			Base compensation	Bonus
Yoshitoshi Kitajima (Director)	326	Dai Nippon Printing Co., Ltd.	276	50
Koichi Takanami (Director)	129	Dai Nippon Printing Co., Ltd.	105	23
Masayoshi Yamada (Director)	129	Dai Nippon Printing Co., Ltd.	105	23

Notes: 1. Total compensation is shown only for those with compensation of at least 100 million yen.
2. Bonuses of Dai Nippon Printing Co., Ltd. are the amounts expected to be paid as bonuses for the fiscal year ended March 2017.

- (3) **Policies regarding the determination of compensation for directors and statutory auditors**
Compensation for directors is calculated within the limits on directors' compensation approved at a general meeting of shareholders; is reviewed and discussed by the Management Committee in light of the advice and opinions of the Advisory Committee comprised of independent outside directors; and is deliberated and decided on by the Board of Directors.

Compensation for each director is determined based on a broad range of factors, including the operations they are in charge of, their responsibilities, achievements, and contributions.

Compensation for statutory auditors is calculated within the limits on statutory auditors' compensation, and the compensation of each statutory auditor is determined based on discussions with the statutory auditor.

Accounting auditing

The names of the certified public accountants who performed the accounting audits, the audit firms they are employed by, and their assistants in the audit work are as follows:

- **Certified public accountants who performed the accounting audits**
Atsushi Sasayama, Hirofumi Nikaido,
Reiji Yonekura, Yurika Kimura
- **Audit firm**
ARK MEIJI AUDIT & Co.
- **Number of accounting audit assistants**
22 certified public accountants, 4 others

Matters for resolution by the general meeting of shareholders that can be resolved by the Board of Directors

- (1) **Share buybacks**
DNP's Articles of Incorporation specify that the Company may buy back its shares in the open market, in accordance with Article 165, Paragraph 1 of Japan's Companies Act, upon approval by the Board of Directors, in accordance with Article 165, Paragraph 2 of Japan's Companies Act, to allow the Company to use capital more efficiently and implement a flexible capital structure policy in response to changes in business conditions.
- (2) **Exemption of directors from liability**
DNP's Articles of Incorporation specify that directors (including former directors) may, by a resolution of the Board of Directors, in accordance with Article 426, Paragraph 1 of Japan's Companies Act, be exempted from liabilities in Article 423, Paragraph 1 of Japan's Companies Act so that the directors can sufficiently carry out their expected responsibilities.
- (3) **Exemption of statutory auditors from liability**
DNP's Articles of Incorporation specify that statutory auditors (including former statutory auditors) may, by a

resolution of the Board of Directors, in accordance with Article 426, Paragraph 1 of Japan's Companies Act, be exempted from liabilities in Article 423, Paragraph 1 of Japan's Companies Act so that the statutory auditors can sufficiently carry out their expected responsibilities.

- (4) **Interim dividend**
DNP's Articles of Incorporation specify that the Company may, by a resolution of the Board of Directors, pay a monetary dividend stipulated in Article 454, Paragraph 5 of Japan's Companies Act to shareholders of record as of September 30 of each year and shareholders with actual stock certificates, so that profits can be flexibly passed on to shareholders.

Number of directors

DNP's Articles of Incorporation specify that the number of regular members on the Board of Directors shall be no more than 16.

Requirements for shareholder approval of director nominees

DNP's Articles of Incorporation specify that the approval of director nominees requires the attendance of at least one third of shareholders with voting rights and a majority of the votes of these shareholders, and does not depend on cumulative votes.

Requirements for shareholder approval of special resolutions

DNP's Articles of Incorporation specify that the approval of special resolutions stipulated in Article 309, Paragraph 2 of Japan's Companies Act requires the attendance of at least one third of shareholders with voting rights and at least two thirds of the votes of these shareholders, so that the shareholders' meetings can run smoothly.

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Stockholdings

(1) Stocks held for reasons other than for pure investment purposes

No. of stocks: 348

Total on the balance sheet: 322,871 million yen

(2) Holding category, company name, number of shares, amount recorded on the balance sheet, and holding purpose of stocks held for reasons other than for pure investment purposes

(Fiscal year ended March 2016)

Stocks held for reasons other than pure investment purposes

Company name	Number of shares	Amount recorded on balance sheet (¥ million)	Holding purpose
Recruit Holdings Co., Ltd.	35,700,000	122,629	Enhance business relationship
Ezaki Glico Co., Ltd.	1,614,656	9,316	Enhance business relationship
The Dai-ichi Life Insurance Co., Ltd.	6,606,600	9,001	Enhance business relationship
Terumo Corporation	2,202,000	8,885	Enhance business relationship
Asahi Group Holdings, Ltd.	1,860,029	6,523	Enhance business relationship
Taisho Pharmaceutical Holdings Co., Ltd.	692,700	6,178	Enhance business relationship
Meiji Holdings Co., Ltd.	564,400	5,107	Enhance business relationship
NISSIN FOODS HOLDINGS CO., LTD.	898,711	4,754	Enhance business relationship
Mizuho Financial Group, Inc.	27,134,319	4,561	Enhance business relationship
Lion Corporation	3,140,665	3,985	Enhance business relationship
YAMATO HOLDINGS CO., LTD.	1,660,600	3,731	Enhance business relationship
YAKULT HONSHA CO., LTD.	701,000	3,494	Enhance business relationship
Dexerials Corporation	3,125,000	3,475	Strengthen business alliance
Toyo Suisan Kaisha, Ltd.	794,980	3,211	Enhance business relationship
Aica Kogyo Co., Ltd.	1,293,743	3,058	Enhance business relationship
FUJIFILM Holdings Corporation	685,965	3,053	Enhance business relationship
Daikin Industries, Ltd.	300,000	2,523	Enhance business relationship
Hakuhodo DY Holdings Inc.	1,720,000	2,193	Enhance business relationship
Sapporo Holdings Limited	3,796,388	2,125	Enhance business relationship
NSK Ltd.	1,814,000	1,868	Strengthen business alliance
SMK Corporation	3,200,000	1,849	Enhance business relationship
Shiseido Co., Ltd.	677,619	1,702	Enhance business relationship
MORINAGA & CO., LTD.	2,965,000	1,698	Enhance business relationship
Ajinomoto Co., Inc.	630,931	1,602	Enhance business relationship
Kobayashi Pharmaceutical Co., Ltd.	157,054	1,551	Enhance business relationship
Mitsubishi Electric Corporation	1,300,000	1,533	Enhance business relationship
Kikkoman Corporation	350,940	1,298	Enhance business relationship
KDDI Corporation	426,600	1,282	Enhance business relationship
ROHM Co., Ltd.	269,474	1,277	Enhance business relationship
PILOT CORPORATION	297,400	1,275	Enhance business relationship
Mitsubishi UFJ Financial Group, Inc.	2,399,760	1,251	Enhance business relationship
NuFlare Technology, Inc.	250,000	1,246	Strengthen business alliance
Tosoh Corporation	2,609,000	1,234	Strengthen business alliance

Stocks held in trust or other legal entity while retaining voting rights or voting instruction rights

Company name	Number of shares	Amount recorded on balance sheet (¥ million)	Holding purpose
Terumo Corporation	3,861,000	15,579	Hold voting instruction rights for shares in retirement benefit trust
TV Asahi Holdings Corporation	4,030,000	8,136	Hold voting instruction rights for shares in retirement benefit trust
Japan Tobacco Inc.	1,000,000	4,690	Hold voting instruction rights for shares in retirement benefit trust
Astellas Pharma Inc.	2,284,000	3,418	Hold voting instruction rights for shares in retirement benefit trust

Note: Specified stocks and stocks held in trust with voting rights are not added together when selecting stocks with the largest amounts as recorded in the balance sheet.

(Fiscal year ended March 2017)

Stocks held for reasons other than pure investment purposes

Company name	Number of shares	Amount recorded on balance sheet (¥ million)	Holding purpose
Recruit Holdings Co., Ltd.	23,700,000	134,616	Enhance business relationship
The Dai-ichi Life Insurance Co., Ltd.	6,606,600	13,190	Enhance business relationship
Ezaki Glico Co., Ltd.	1,615,185	8,721	Enhance business relationship
Asahi Group Holdings, Ltd.	1,860,029	7,827	Enhance business relationship
Lion Corporation	3,140,665	6,287	Enhance business relationship
Taisho Pharmaceutical Holdings Co., Ltd.	692,700	6,262	Enhance business relationship
NISSIN FOODS HOLDINGS CO., LTD.	898,711	5,545	Enhance business relationship
Mizuho Financial Group, Inc.	27,134,319	5,535	Enhance business relationship
Meiji Holdings Co., Ltd.	564,400	5,231	Enhance business relationship
YAKULT HONSHA CO., LTD.	701,000	4,332	Enhance business relationship
YAMATO HOLDINGS CO., LTD.	1,660,600	3,873	Enhance business relationship
Aica Kogyo Co., Ltd.	1,293,743	3,793	Enhance business relationship
Dexerials Corporation	3,125,000	3,437	Strengthen business alliance
Daikin Industries, Ltd.	300,000	3,355	Enhance business relationship
Toyo Suisan Kaisha, Ltd.	794,980	3,295	Enhance business relationship
FUJIFILM Holdings Corporation	685,965	2,982	Enhance business relationship
MORINAGA & CO., LTD.	593,000	2,929	Enhance business relationship
NSK Ltd.	1,814,000	2,887	Strengthen business alliance
Tosoh Corporation	2,609,000	2,551	Strengthen business alliance
Sapporo Holdings Limited	759,277	2,285	Enhance business relationship
Hakuhodo DY Holdings Inc.	1,720,000	2,270	Enhance business relationship
Mitsubishi Electric Corporation	1,300,000	2,076	Enhance business relationship
ROHM Co., Ltd.	270,178	1,999	Enhance business relationship
Shiseido Co., Ltd.	677,619	1,985	Enhance business relationship
Kobayashi Pharmaceutical Co., Ltd.	315,274	1,699	Enhance business relationship
Mitsubishi UFJ Financial Group, Inc.	2,399,760	1,679	Enhance business relationship
Mitsubishi Chemical Holdings Corporation	1,799,790	1,550	Enhance business relationship
TAKARA HOLDINGS INC.	1,200,000	1,441	Enhance business relationship
Ajinomoto Co., Inc.	630,931	1,385	Enhance business relationship
Mitsubishi Pencil Co., Ltd.	243,350	1,357	Enhance business relationship
PILOT CORPORATION	297,400	1,354	Enhance business relationship
SMK Corporation	3,200,000	1,267	Enhance business relationship
KDDI Corporation	426,600	1,246	Enhance business relationship
Senshukai, INC.	1,511,663	1,212	Enhance business relationship
SINFONIA TECHNOLOGY CO., LTD.	3,664,000	1,190	Strengthen business alliance
Eidai Co., Ltd.	2,237,000	1,178	Enhance business relationship
TOTO LTD.	279,000	1,173	Enhance business relationship
Kikkoman Corporation	350,940	1,166	Enhance business relationship

Stocks held in trust or other legal entity while retaining voting rights or voting instruction rights

Company name	Number of shares	Amount recorded on balance sheet (¥ million)	Holding purpose
Terumo Corporation	3,861,000	14,922	Hold voting instruction rights for shares in retirement benefit trust
TV Asahi Holdings Corporation	4,030,000	8,479	Hold voting instruction rights for shares in retirement benefit trust
Japan Tobacco Inc.	1,000,000	3,618	Hold voting instruction rights for shares in retirement benefit trust
Astellas Pharma Inc.	2,284,000	3,348	Hold voting instruction rights for shares in retirement benefit trust

Note: Specified stocks and stocks held in trust with voting rights are not added together when selecting stocks with the largest amounts as recorded in the balance sheet.

(3) Stocks held for pure investment purposes

None

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2. Compensation Paid to Accounting Auditors

Compensation paid to accounting auditors

	Fiscal year ended March 2016		Fiscal year ended March 2017	
	Compensation for audit certification (¥ million)	Compensation for other services (¥ million)	Compensation for audit certification (¥ million)	Compensation for other services (¥ million)
Dai Nippon Printing Co., Ltd.	96	—	96	—
Consolidated subsidiaries	125	—	124	—
Total	221	—	220	—

Other material compensation details

None

Compensation paid to accounting auditors for services other than auditing work provided to DNP

None

Determination of compensation for audit services

DNP's compensation for auditing services is determined based on a variety of factors, including the number of expected days for the audit and the company size.

Board of Directors, Statutory Auditors and Corporate Officers

(As of June 29, 2017)

President

Yoshitoshi Kitajima

Executive Vice Presidents

Koichi Takanami

Masayoshi Yamada

Yoshinari Kitajima

Senior Managing Directors

Masahiko Wada

Tetsuji Morino

Tokuji Kanda

Managing Directors

Motoharu Kitajima

Takashi Saito

Satoru Inoue

Directors

Tadao Tsukada*

Tsukasa Miyajima*

Standing Statutory Auditors

Kazunari Tanaka

Naoki Hoshino

Shin-ichi Ikeda*

Statutory Auditors

Makoto Matsuura*

Kuniaki Nomura*

Senior Executive Corporate Officers

Sakae Hikita

Kouichi Hashimoto

Masato Koike

Masato Yamaguchi

Senior Corporate Officers

Shigemi Furuya

Ryuji Minemura

Morihiro Muramoto

Kenji Miya

Toshiki Sugimoto

Naohiko Sugimoto

Kiyotaka Nakagawa

Daiji Suzuki

Corporate Officers

Kazuhiko Takada

Ryota Chiba

Nobuyuki Asaba

Mitsuru Tsuchiya

Hirofumi Hashimoto

Kazuhiko Sugita

Masafumi Kuroyanagi

Toru Takamatsu

Satoshi Kubota

Souichiro Nishitani

Yoshiki Numano

Osamu Nakamura

Kazuhisa Kobayashi

* Outside director or auditor

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Yoshinari Kitajima

Tetsuji Morino

Koichi Takanami

Masahiko Wada

Yoshitoshi Kitajima

Tokuji Kanda

Masayoshi Yamada

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Large-scale digital signage using an OLED display, at DNP Gotanda Building

Management's Discussion and Analysis

Operating Results

| Business Environment

Japan's economy gradually recovered during the fiscal year through March 2017, with employment and income conditions improving as a result of the economic policies of the Japanese government and the monetary easing policies of the Bank of Japan. However, the economy has still not reached a full-fledged recovery, due partly to a stronger yen, sluggish consumer spending, and overseas economic slowdowns in China and elsewhere.

The printing industry continued to face a tough business environment as a result of lower demand for printed media, including published printed materials, and lower order prices due to stiffer competition. A discussion of the business environment affecting each of DNP's business segments in the current fiscal year is provided below.

Information Communication

- In the Publishing & Media Services business, publication sales in Japan fell by 4.2% year on year to ¥1,441.0 billion in the fiscal year through March 2017, according to Japan's Research Institute for Publications. Publication sales have decreased by about 45% from a peak of ¥2,656.3 billion in 1996. Within this, book sales fell 2.5% year on year to ¥725.1 billion, and magazine sales slumped 5.8% to ¥715.9 billion on a decline in circulation and increase in discontinued publications. The sales value of magazines fell below the sales value of books.
- In the Education and Publications Distribution business, the sale of published materials continues to decline, and the number of bookstores also continues to decline at an annual rate of around 3% from a peak of roughly 22,000 stores in 1999. Meanwhile, the domestic e-book market expanded substantially by 27.1% year on year to ¥190.9 billion in the fiscal year through March 2017, according to Japan's Research Institute for Publications.
- In the Marketing business, domestic advertising demand showed modest overall growth of 2.1% in the fiscal year through March 2017, according to Japan's Ministry of Economy, Trade and Industry. Direct mail advertising decreased from the previous year, but internet advertising expanded, and advertising in the four media of newspapers, magazines, television, and radio was generally on par with the previous year.
- In the Information Security business, major financial institutions expanded their outsourcing of a full range of operations to other companies, including various notifications. There was also growth for SIM cards used in smartphones and for smart cards used by financial institutions and for electronic money.
- In the Imaging Communication business, the volume of photo printing is declining worldwide, due partly to the spread of photo sharing services that can be accessed using smartphones and other devices. However, the market for dye-sublimation thermal transfer printing media for photo printers continued to expand as a result of demand shifting from silver halide printing.

Lifestyle and Industrial Supplies

- In the Packaging business, production value in the domestic package printing industry rose 2% year on year in the fiscal year through March 2017, according to Japan's Ministry of Economy, Trade and Industry. However, the market environment remained difficult, as sales of seasonal products fluctuated due to unseasonable weather and price competition intensified.
- In the Living Spaces business, domestic new housing starts increased by 5.8% year on year during the fiscal year through March 2017. However, rental housing that uses a low amount of construction material per unit increased by 11.4% while condominiums that use a large amount of construction material decreased by 5.1%. As a result, domestic demand for construction material showed only modest growth, according to Japan's Ministry of Land, Infrastructure, Transport and Tourism.
- In the Industrial Supplies business, domestic shipment volume of photovoltaic cells (as converted to power generation capacity) fell by 11% year to year to 6,341 megawatts in the fiscal year through March 2017, according to the Japan Photovoltaic Energy Association. This reflects a decrease in purchase prices for photovoltaic energy as a result of revisions to Japan's feed-in tariff (FIT) scheme for electric power generated from renewable energy sources. Domestic demand for photovoltaic cells continued a downward trend, primarily for residential use. Overseas, photovoltaic module inventories increased on account of FIT scheme revisions in China, resulting in a decline in module prices in the overall global market. However, markets related to lithium-ion batteries showed firm growth.

Electronics

- In the LCD panel market, volume rose slightly for panels used in TVs. Notebook PC and monitor displays have reached a mature period in the product life cycle, and tablet displays have also slowed sharply as a result of competition with smartphones. Automotive displays were firm, but growth slowed for smartphone displays. The organic light-emitting diode (OLED) panel market was brisk, and smartphones that use OLEDs as a high-value-added product among small- and medium-sized displays were strong in terms of both volume and display area.
- In the Electric Devices business, there is a noticeable trend toward the in-house production of photomasks by semiconductor manufacturers, and products made internally by manufacturers accounted for over 60% of the overall market in 2016. Accordingly, conditions remain difficult for outside manufacturers of photomasks.

Beverages

- The soft drink industry continued to face a tough market environment as a result of manufacturers competing hard for market share and competition between national brands and private brands heating up.

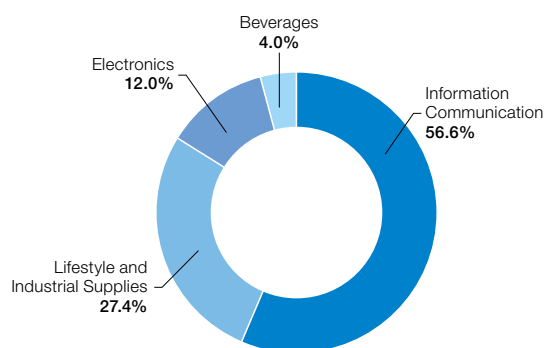
Overview

DNP has identified the four growth areas of “Knowledge and Communication,” “Food and Healthcare,” “Lifestyle and Mobility,” and “Environment and Energy,” and focused on creating new value to help solve various social issues in Japan and overseas based on P&I innovations that combine its strengths in printing and information.

- In **Knowledge and Communication**, DNP launched a joint initiative in April 2016 with Cybertrust Japan Co., Ltd., which excels in electronic authentication, to provide various authentication services with the aim of expanding online identity authentication services that are safe, secure, and convenient. Additionally, DNP formed a capital and business alliance with Future Link Network Co., Ltd. in September 2016 to fully enter a regional revitalization business using community information portal sites and community currency points.
- In **Food and Healthcare**, DNP concluded an agreement with SIG Combibloc Group AG, a major global manufacturer of paper containers for food and beverages, to cooperate in the Japanese market.
- In **Lifestyle and Mobility**, DNP pursued the development of new products with superior functionality, including non-electric dimming blind glass that works by sliding two sheets of glass manually to switch between transparent and dim views; and curved surface resin glass for automobiles that is lightweight and demonstrates excellent weather and wear resistance.
- In **Environment and Energy**, DNP focused on developing a variety of products and services that contribute to reducing burdens on the environment. As part of these efforts, DNP Lighting Film, which helps reduce power consumption by effectively reflecting and dispersing natural light from windows in a room, was awarded the 26th Grand Prize for Global Environment Award, Japan Business Federation Chairman’s Prize, in February 2017.

Net Sales by Segment

(Year ended March 31, 2017)



In addition to initiatives in these growth areas, DNP also implemented groupwide structural reforms to bolster business competitiveness, including the reorganization and consolidation of business divisions and Group companies.

Despite these activities, consolidated net sales fell 3.1% year on year to ¥1,410,173 million during the fiscal year through March 2017. Consolidated operating income fell 30.9% to ¥31,411 million, and the consolidated operating income margin decreased by 0.9 percentage points to 2.2%. By segment, the operating income margin decreased by 1.2 percentage point to 2.4% in Information Communication, increased by 0.4 percentage point to 3.7% in Lifestyle and Industrial Supplies, decreased by 0.6 percentage point to 9.7% in Electronics, and increased by 2.6 percentage points to 4.3% in Beverages.

	2017.3	2016.3	2015.3
Net sales (¥ million)	¥ 1,410,173	¥ 1,455,916	¥ 1,462,118
Gross profit margin (%)	18.9%	19.4%	19.1%
Operating income margin (%)	2.2%	3.1%	3.3%
Ordinary income margin (%)	2.6%	3.6%	3.7%
Net income margin (%)	1.8%	2.3%	1.8%
Net income per share (¥)	¥ 40.79	¥ 53.10	¥ 41.82

Net Sales

Net sales totaled ¥1,410,173 million in the current fiscal year, down 3.1%, or ¥45,743 million, from the previous year.

Information Communication

In the Publishing & Media Services business, book sales were on par with the previous year, aided by aggressive sales activities, but magazines decreased and overall sales were below the previous year.

In the Education and Publications Distribution business, the number of outsourcing libraries in the library outsourcing business showed strong growth, rising by 115 libraries year on year to 1,206 libraries at the end of March 2017. However, overall sales in this business decreased, due to the large impact of Bunkyodo Group Holdings Co., Ltd. becoming an equity-method affiliate as a result of transferring a portion of its stock to Nippon Shuppan Hanbai Inc. in October 2016.

In the Marketing business, sales decreased for advertising flyers, but overall sales increased from the previous year on growth for catalogs, pamphlets, and sales promotion tools such as point-of-purchase (POP) materials for retailers.

In the Information Security business, overall sales increased on growth for SIM cards used in smartphones and smart cards used by financial institutions and for electronic money, and firm outsourcing demand from financial institutions for Information Processing Services (IPS).

In the Imaging Communication business, sales decreased on a winding down of printer replacement demand in the North American market and large impact of a strong yen.

Overall segment sales fell 2.5% year on year to ¥801,204 million.

Lifestyle and Industrial Supplies

In the Packaging business, sales increased from the previous year on strong sales of paper cups, mainly for food applications, and sharply higher sales for PET plastic bottle aseptic filling systems.

In the Living Spaces business, overall sales rose slightly, buoyed by strong sales for EB floor coverings, which are well regarded for scratch resistance and are one of the environmentally conscious products that use DNP's propriety electron beam (EB) coating technology.

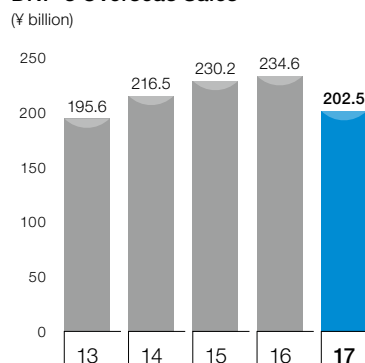
In the Industrial Supplies business, sales of photovoltaic module components decreased from the previous year as a result of lower volume in the domestic market and decline in module prices in overseas markets. For lithium-ion battery components, volume increased for mobile device applications, but due to a decrease in prices for mobile device applications and only modest growth in automotive applications, overall sales were down slightly.

Overall segment sales grew 1.4% year on year to ¥388,195 million.

Electronics

LCD color filter sales decreased on declines for both small- and medium-sized filters for smartphones and tablets and large filters for TVs. For metal masks used in the production of OLED displays, which have attracted attention as next-generation displays, sales increased on high demand for smartphone applications. For optical films, sales decreased for smartphone polarizing plate applications. In the Electric Devices business, sales decreased from the previous year for semiconductor photomasks, affected by a slump in the domestic semiconductor market and by foreign exchange. Sales also decreased for lead

DNP's Overseas Sales



frames amid poor sales for high-value-added products used in mobile devices in support of miniaturization.

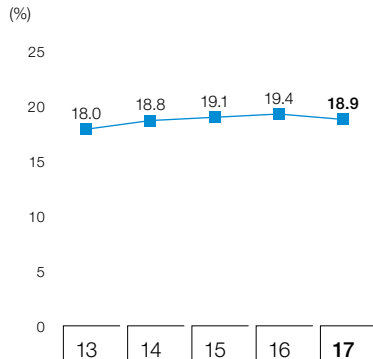
Overall segment sales fell 15.0% year on year to ¥169,408 million.

Beverages

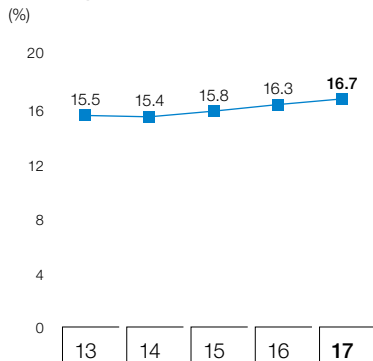
Sales of unsweetened teas increased, but sales to other group bottlers decreased, and were also down for the Coca-Cola brand.

Overall segment sales fell 2.5% year on year to ¥56,620 million.

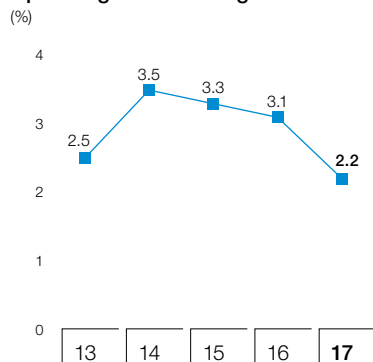
Gross Profit Margin



SGA Expenses to Net Sales



Operating Income Margin



Cost of Sales

The cost of sales totaled ¥1,143,164 million, down 2.6%, or ¥30,039 million, from the previous year. The gross profit margin was 18.9%, down 0.5 percentage point from 19.4%.

Global crude oil prices continued a gradual upward trend during the current fiscal year after bottoming out in March 2016, and petroleum product prices also increased at a time lag of three to six months from the rise in crude oil prices. However, DNP was not affected by higher prices. Additionally, domestic demand for printing paper continued to contract, and prices also trended downward. As a result of these factors, the impact of higher raw material prices was just around ¥500 million in the current fiscal year, down sharply from ¥3.3 billion in the previous year. Moreover, DNP was able to negotiate with corporate customers to pass on the entire impact of higher raw material prices.

Selling, General and Administrative Expenses

Selling, general and administrative expenses totaled ¥235,598 million in the current fiscal year, down 0.7%, or ¥1,643 million, from the previous year. Selling, general and administrative expenses equated to 16.7% of net sales, up 0.4 percentage point from the previous year.

Operating Income

Operating income totaled ¥31,411 million in the current fiscal year, down 30.9%, or ¥14,061 million, from the previous year. The operating income margin was 2.2%, down 0.9 percentage point from 3.1% in the previous year.

Information Communication

Operating income benefited from higher sales of SIM cards used in smartphones, smart cards used by financial institutions and for electronic money, and Information Processing Services for financial institutions. However, operating income was affected by higher costs related to retirement benefits and upfront investment in new business, and by a stronger yen, especially in the Imaging Communication business. Segment operating income totaled ¥18,884 million, down 35.7%, or ¥10,480 million, from the previous year. The operating income margin was 2.4%, down 1.2 percentage point from 3.6% in the previous year.

Lifestyle and Industrial Supplies

Segment operating income totaled ¥14,434 million, up 14.6%, or ¥1,837 million, from the previous year, aided by higher sales in the Packaging business and lower costs for raw materials, energy, and other items. The operating income margin was 3.7%, up 0.4 percentage point from 3.3% in the previous year.

Electronics

Segment operating income totaled ¥16,484 million, down 19.6%, or ¥4,025 million, from the previous year, due to a decline in overall segment sales. The operating income margin was 9.7%, down 0.6 percentage point from 10.3% in the previous year.

Beverages

Segment operating income totaled ¥2,430 million, up 145.1%, or ¥1,439 million, from the previous year, due to rigorous cost-cutting efforts, mainly a reduction in cost of sales, and to changing the depreciation method for vending machines from declining balance depreciation to straight-line depreciation and extending the service life from 5–6 years to nine years. The operating income margin was 4.3%, up 2.6 percentage points from 1.7% in the previous year.

Nonoperating Income (Expenses) and Extraordinary Income (Losses)

Nonoperating income totaled ¥13,678 million in the current fiscal year, down 7.3%, or ¥1,073 million, from the previous year; and nonoperating expenses totaled ¥8,349 million, up 10.3%, or ¥778 million. As a result, net nonoperating income totaled ¥5,329 million, down from ¥7,180 million in the previous year.

Ordinary income totaled ¥36,740 million, down 30.2%, or ¥15,911 million, from the previous year.

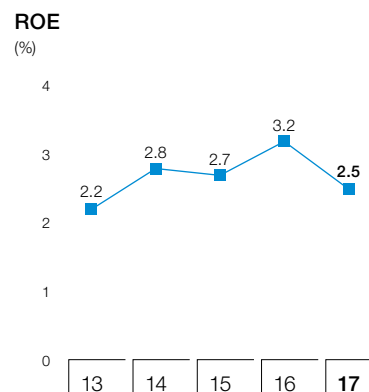
Extraordinary income totaled ¥49,631 million, up ¥33,140 million from the previous year, as gain on sales of investment securities increased to ¥46,205 million from ¥15,111 million in the previous year. Extraordinary losses totaled ¥46,541 million, up ¥32,240 million from the previous year, as repair costs and repair reserve provisions increased to ¥37,738 million from ¥7,672 million in the previous year. As a result, net extraordinary income totaled ¥3,090 million, up from ¥2,190 million in the previous year.

As a result of the above, income before income taxes and non-controlling interests totaled ¥39,831 million, down 27.4%, or ¥15,010 million, from the previous year.

Net Income Attributable to Parent Company Shareholders

Net income attributable to parent company shareholders totaled ¥25,226 million in the current fiscal year, down 24.9%, or ¥8,362 million, from the previous year.

Net income per share was ¥40.79, down ¥12.31 from the previous year.



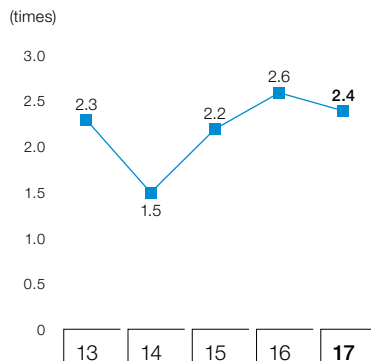
Liquidity and Capital Resources

Cash Flow

	2017.3	2016.3	2015.3
Cash flow from operating activities	¥ 71,945	¥ 72,629	¥ 85,731
Cash flow from investing activities	14,012	(60,883)	(50,540)
Free cash flow	85,957	11,746	35,191

(¥ million)

Interest-bearing Debt to Cash Flow Ratio



Net cash provided by operating activities totaled ¥71,945 million, down 0.9%, or ¥684 million, from the previous year.

Net cash provided by investing activities totaled ¥14,012 million, versus ¥60,883 million in net cash used in the previous year, due mainly to a decrease of ¥14,385 million in payments for purchases of property, plant and equipment and an increase of ¥40,928 million in proceeds from sales of investment securities.

Net cash used in financing activities totaled ¥45,223 million, down ¥1,943 million from ¥47,166 million in the previous year.

As a result of these activities, cash and cash equivalents at the end of the fiscal year totaled ¥214,564 million, up 22.2%, or ¥39,051 million, from the previous year.

Free cash flow—i.e., the total net cash provided by operating activities and investing activities—was ¥85,957 million, up ¥74,211 million from ¥11,746 million in the previous year.

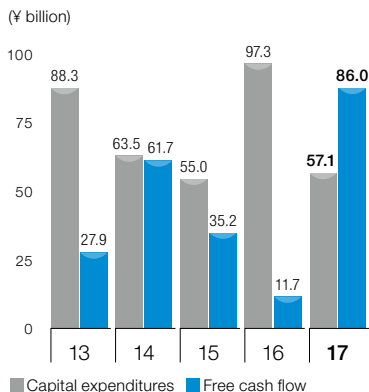
Capital Expenditures; Depreciation; Research and Development Expenditures, etc.

Capital expenditures this fiscal year consisted mainly of streamlining investment and totaled ¥57.1 billion, down 41.3%, or ¥40.2 billion, from the previous year. By segment, capital expenditures in the Information Communication segment were ¥28.7 billion, down ¥23.8 billion from the previous year and accounting for 50% of total capital expenditures. The Lifestyle and Industrial Supplies segment was ¥12.6 billion, down ¥10.7 billion and accounting for 22%. The Electronics segment was ¥7.7 billion, down ¥5.5 billion and accounting for 14%. The Beverages segment was ¥3.8 billion, down ¥2.0 billion and accounting for 7%. Adjustment was ¥4.2 billion, up ¥1.8 billion and accounting for 7%.

Depreciation totaled ¥61.5 billion, down 5.9%, or ¥3.8 billion, from the previous year. By segment, depreciation in the Information Communication segment was ¥27.7 billion, up ¥0.2 billion from the previous year and accounting for 45% of total depreciation. The Lifestyle and Industrial Supplies segment was ¥17.0 billion, unchanged and accounting for 28%. The Electronics segment was ¥12.1 billion, down ¥2.9 billion and accounting for 19%. The Beverages segment was ¥2.4 billion, down ¥1.5 billion and accounting for 4%. Adjustment was ¥2.3 billion, up ¥0.5 billion and accounting for 4%.

Research and development expenditures totaled ¥31.4 billion, down 1.4% from ¥31.8 billion in the previous year.

Capital Expenditures and Free Cash Flow



The Balance Sheet

	2017.3	2016.3	2015.3
Total assets (¥ million)	¥ 1,741,904	¥ 1,718,636	¥ 1,809,462
Current ratio (%)	178%	170%	175%
Working capital/net sales (%)	23%	20%	22%
Debt-to-equity ratio (%)	16%	19%	17%
Net assets per share (¥)	¥ 1,680.55	¥ 1,618.66	¥ 1,675.63

DNP's total assets at the end of this fiscal year amounted to ¥1,741,904 million, up 1.4%, or ¥23,268 million, from the previous year.

Among current assets, cash and cash equivalents and time deposits totaled ¥215,455 million, up 21.9%, or ¥38,761 million, from the previous year. Trade receivables totaled ¥341,805 million, down 1.9%, or ¥6,780 million. Inventories of merchandise and finished products, work in process, raw materials and supplies totaled ¥137,313 million, down 11.9%, or ¥18,634 million. As a result, current assets totaled ¥737,140 million, up 2.1%, or ¥15,415 million.

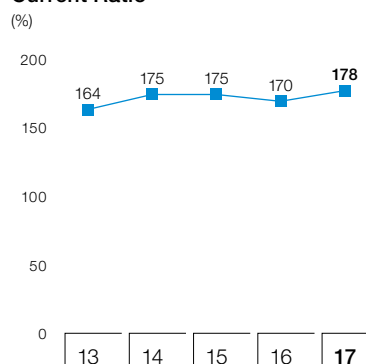
Among long-term assets, property, plant and equipment totaled ¥497,167 million, down 3.1%, or ¥15,990 million, from the previous year. Intangible assets totaled ¥34,436 million, down 3.8%, or ¥1,366 million. Investments and other assets totaled ¥473,160 million, up 5.6%, or ¥25,208 million. As a result, long-term assets totaled ¥1,004,764 million, up 0.8%, or ¥7,852 million.

Current liabilities totaled ¥415,199 million, down 1.9%, or ¥8,115 million, from the previous year. Long-term liabilities totaled ¥245,419 million, up 5.7%, or ¥13,339 million. As a result, total liabilities amounted to ¥660,618 million, up 0.8%, or ¥5,224 million.

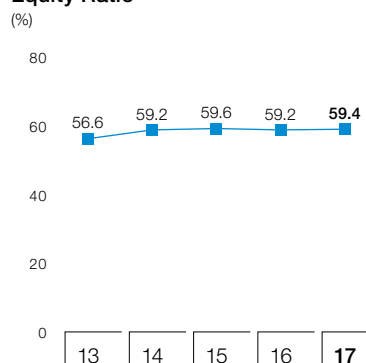
Additionally, net assets totaled ¥1,081,286 million, up 1.7%, or ¥18,044 million.

As of March 31, 2017, the number of treasury shares totaled 48,287,110, or 7.28% of total shares outstanding of 663,480,693 shares. Treasury shares decreased by 3,632,467 shares from the previous year, reflecting an increase of 13,222,000 shares from the purchase of treasury shares based on a resolution by the Board of Directors, an increase of 112,066 shares from the purchase of shares held by untraceable shareholders, an increase of 32,154 shares from the purchase of odd-lot shares, an increase of 1,313 shares from changes in equity ownership rates of equity-method affiliates, and a decrease of 17,000,000 shares from the cancellation of treasury shares based on a resolution by the Board of Directors.

Current Ratio



Equity Ratio



Business Risks

DNP's earnings performance and other aspects of its business could possibly be significantly affected by a variety of factors that might arise in the future. DNP recognizes these potential risk factors and works to minimize their impact.

DNP considers the following factors to be key risks, as of the publication date of this annual report.

Japanese and overseas economies and consumption trends

DNP engages in a wide range of businesses with an extremely large number of corporate customers, and it pursues stable business activities supported by a business base that does not rely on specific customers. DNP does most of its business in the Japanese market, but if consumer spending and other components of domestic demand slump, owing to domestic economic fluctuations in connection with global economic trends, its performance could be affected by a drop in order volume, decline in unit prices, and other factors.

Additionally, DNP could be directly or indirectly affected by market trends in various industries in Japan or overseas. In particular, electronics-related industries are susceptible to changes in production and demand in emerging markets and to global declines in unit prices, and DNP's performance could be affected by major changes in market trends.

Overseas business activities

DNP conducts overseas business activities mainly in the U.S., Europe, Southeast Asia, and elsewhere, and these activities face risks including social and political turmoil caused not only by economic factors such as unexpected changes in laws and regulations, stricter laws and regulations related to the environment and other areas, fragility of industrial infrastructure, and difficulty of hiring and securing personnel, but also by terrorism, war, and other factors. DNP's performance could be affected if its overseas business activities are obstructed as a result of these risks materializing.

Development of new products and services

DNP leverages its strengths in printing, information, and other fields to develop products and services that solve social problems and deliver new value to companies and consumers. These development efforts face an accelerating pace of technological innovation and diversification of needs. Going forward, amid expectations for development competition to intensify in Japan and overseas, DNP's performance could possibly be affected by a greater-than-expected shortening of product life cycles and by changes in market trends.

Strategic business and capital alliances and corporate acquisitions

DNP engages in strategic business and capital alliances and corporate acquisitions, and its performance could be affected if it is unable to achieve initially expected synergies and results due to deterioration in the business environment affecting the companies and businesses involved in these alliances and acquisitions.

Fluctuations in raw materials procurement

DNP works to secure stable volume and maintain optimal pricing in procuring raw materials, including by purchasing printing paper and film materials from multiple suppliers in Japan and overseas. However, there is risk of imbalances between supply and demand due to sharp fluctuations in petroleum prices, sudden surges in demand from emerging markets, the impact of major disasters, the depletion of natural resources, and climate change. DNP will respond during such times by negotiating with client companies and business partners, but its performance could be affected if raw materials procurement becomes extremely difficult, if purchasing prices rise sharply, or if other such events occur.

Currency fluctuations

Amid the aggressive pursuit of global business expansion, DNP expects the impact of foreign exchange to steadily increase. DNP uses foreign exchange forward contracts and other means to hedge against the risk of fluctuations in currency markets, but its performance could be seriously affected in the event of sharp volatility in foreign exchange rates.

Environmental protection and stricter environmental regulations

DNP's business is affected by legal regulations in Japan and other countries related to energy conservation, climate change prevention (e.g., reduction of greenhouse gas emissions), reduction of the use of harmful substances, air pollution prevention, water quality protection, waste treatment, and product recycling. These regulations could conceivably be strengthened or changed in the future. DNP's performance could be substantially affected by responding to these types of conditions and by a strengthening of measures to reduce environmental loads.

Information security and personal information protection

Global computer networks and information systems have become essential tools for conducting business, and there are now greater risks of software and hardware defects, global cyberattacks, computer virus infections, and personal data leaks. DNP regards information security and personal data protection as a top management priority, and is making every effort to maintain and manage systems and data by strengthening its organization and training employees. However, its business activities could be affected in the event of a malicious cyberattack, accident, or other such events.

Response to changes in legal regulations

DNP conducts its business based on strict compliance with laws and social ethics. It is subject to a variety of legal regulations in Japan and overseas, including product liability laws, antimonopoly laws, personal data protection laws, patent laws, tax regulations, and import and export rules. These regulations could conceivably be strengthened in the future. On the other hand, market and industry trends could change substantially as a result of deregulation. In this event, DNP's business activities could be affected by greater limitations on its business activities and a prospective increase in the burden and cost of responding to regulatory changes.

Disasters

DNP takes steps to protect production equipment and other major facilities from fires and earthquakes, seeks to decentralize and reorganize production facilities, and has prepared a Business Continuity Plan (BCP) to minimize any production shutdowns and product supply disruptions caused by disasters. DNP also uses various types of insurance to transfer risk. Nevertheless, DNP's performance could be substantially affected in the event of major earthquakes, natural disasters such as rainstorms or flooding caused by climate change, disease outbreaks, or other unexpected events that cause production shutdowns or significantly damage or impair social infrastructure.

Lawsuits and fines

DNP seeks to establish corporate ethics throughout the Group, and works to earn the trust of society by each and every employee complying with laws and regulations in conducting business activities, maintaining higher ethical standards than required by society, and contributing to maintaining and advancing orderly and freely competitive markets with a consistently fair attitude. Nevertheless, DNP's performance could be affected in the event of being subject to lawsuits and resulting fines in Japan or overseas.

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Selected Financial Data (unaudited)

Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries
Years ended March 31

	2017	2016	2015	2014
Statements of Operations Data (¥ million)				
Net sales	¥ 1,410,173	¥ 1,455,916	¥ 1,462,118	¥ 1,448,550
Cost of sales	1,143,164	1,173,203	1,182,954	1,176,077
Gross profit	267,009	282,713	279,164	272,473
Selling, general and administrative expenses	235,598	237,241	230,990	222,374
Operating income	31,411	45,472	48,174	50,099
Ordinary income	36,740	52,651	53,759	53,285
Income (loss) before income taxes and non-controlling interests	39,831	54,841	51,062	48,608
Net income (loss) attributable to parent company shareholders	25,226	33,588	26,924	25,642
Balance Sheet Data (¥ million)				
Total assets	¥ 1,741,904	¥ 1,718,636	¥ 1,809,462	¥ 1,574,754
Property, plant and equipment—net	497,167	513,157	512,791	528,538
Long-term liabilities	245,419	232,080	249,965	179,946
Total liabilities	660,618	655,394	685,370	598,369
Stockholders' equity	884,829	894,752	902,217	892,110
Total net assets	1,081,286	1,063,242	1,124,092	976,385
Other Selected Data (¥ million)				
Capital expenditures	¥ 57,085	¥ 97,265	¥ 55,024	¥ 63,465
Depreciation expenses	61,461	65,310	67,034	73,459
R&D expenditures	31,376	31,827	31,749	30,820
Common Share Data (¥, shares)				
Earnings (loss) per share—primary	¥ 40.79	¥ 53.10	¥ 41.82	¥ 39.82
Earnings (loss) per share—fully diluted	40.78	53.07	41.44	39.65
Dividends paid per share	32.00	32.00	32.00	32.00
Book value per share	1,680.55	1,618.66	1,675.63	1,447.96
No. of common shares outstanding (exc. treasury shares)	615,193,583	628,561,116	643,833,079	643,893,863
Financial Ratios (%)				
As a percentage of net sales:				
Gross profit	18.93%	19.42%	19.09%	18.81%
Selling, general and administrative expenses	16.71	16.29	15.80	15.35
Operating income	2.23	3.12	3.29	3.46
Income (loss) before income taxes and non-controlling interests	2.82	3.77	3.49	3.36
Net income (loss) attributable to parent company shareholders	1.79	2.31	1.84	1.77
Return on equity	2.46	3.20	2.67	2.81
Current ratio	178	170	175	175
D/E ratio	16	19	17	20

	2013	2012	2011	2010	2009	2008
¥	1,446,607	¥ 1,507,228	¥ 1,589,373	¥ 1,583,383	¥ 1,584,844	¥ 1,616,053
	1,186,558	1,246,878	1,287,581	1,286,682	1,324,522	1,327,872
	260,049	260,350	301,792	296,701	260,322	288,181
	224,269	226,335	233,973	230,187	214,145	201,077
	35,780	34,015	67,819	66,514	46,177	87,104
	40,318	36,843	62,786	68,841	47,390	86,502
	35,152	2,673	52,696	49,496	(27,842)	88,469
	19,218	(16,356)	25,033	23,278	(20,933)	45,172
¥	1,578,976	¥ 1,608,806	¥ 1,649,784	¥ 1,618,854	¥ 1,536,557	¥ 1,601,193
	538,455	579,567	614,827	616,848	604,904	639,343
	184,136	251,414	249,575	190,045	126,671	106,691
	641,921	694,593	697,343	661,990	596,471	561,058
	887,194	888,650	925,702	921,775	917,348	990,122
	937,055	914,213	952,441	956,864	940,086	1,040,135
¥	88,315	¥ 98,189	¥ 102,173	¥ 119,063	¥ 96,156	¥ 116,139
	80,200	95,829	97,977	91,695	106,883	109,902
	30,820	31,690	33,147	33,850	34,112	35,556
¥	29.84	¥ (25.39)	¥ 38.86	¥ 36.13	¥ (32.35)	¥ 67.08
	29.79	—	—	—	—	—
	32.00	32.00	32.00	32.00	32.00	36.00
	1,386.86	1,352.71	1,410.44	1,422.34	1,393.91	1,516.35
	643,990,364	644,062,928	644,142,530	644,238,930	644,357,076	661,366,377
	17.98%	17.27%	18.99%	18.74%	16.43%	17.83%
	15.50	15.02	14.72	14.54	13.51	12.44
	2.47	2.26	4.27	4.20	2.91	5.39
	2.43	0.18	3.32	3.13	-1.76	5.47
	1.33	-1.09	1.57	1.47	-1.32	2.80
	2.18	-1.84	2.74	2.57	-2.20	4.35
	164	177	177	157	144	157
	25	26	25	18	14	8

Consolidated Financial Statements

Consolidated Balance Sheets

Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries March 31, 2017 and 2016	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Assets			
Current assets:			
Cash and cash equivalents (Notes 4 and 15)	¥ 214,564	¥ 175,513	\$ 1,915,750
Time deposits (Note 15)	891	1,181	7,955
Trade receivables (Notes 10 and 15)	341,805	348,585	3,051,830
Allowance for doubtful receivables	(1,628)	(1,349)	(14,536)
Inventories (Note 6)	137,313	155,947	1,226,009
Prepaid expenses and other current assets (Notes 5, 10 and 13)	44,195	41,848	394,599
Total current assets	737,140	721,725	6,581,607
Investments and advances:			
Non-consolidated subsidiaries and associated companies (Notes 10 and 15)	54,217	57,246	484,081
Investment securities (Notes 5 and 15)	326,950	306,190	2,919,196
Other (Notes 10 and 15)	4,670	6,555	41,696
Total investments and advances	385,837	369,991	3,444,973
Property, plant and equipment, at cost (Note 7):			
Land	155,115	155,532	1,384,955
Buildings and structures	567,662	584,014	5,068,411
Machinery and equipment	873,636	888,329	7,800,321
Leased assets	24,324	24,644	217,179
Construction in progress	18,326	14,946	163,625
Total	1,639,063	1,667,465	14,634,491
Accumulated depreciation	(1,141,896)	(1,154,308)	(10,195,500)
Net property, plant and equipment	497,167	513,157	4,438,991
Other assets			
Net defined benefit asset (Note 8)	57,089	45,844	509,723
Other (Notes 7 and 13)	64,671	67,919	577,420
Total other assets	121,760	113,763	1,087,143
Total assets	¥ 1,741,904	¥ 1,718,636	\$ 15,552,714

Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries March 31, 2017 and 2016	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans (Notes 7 and 15)	¥ 43,036	¥ 55,316	\$ 384,250
Current portion of long-term debt (Notes 7 and 15)	7,800	8,755	69,643
Trade payables (Notes 10 and 15)	247,562	255,586	2,210,375
Accrued expenses (Note 10)	40,713	45,735	363,509
Income taxes payable (Note 13)	7,153	6,014	63,866
Reserve for repair	18,680	–	166,786
Other current liabilities (Notes 7, 10 and 13)	50,255	51,908	448,705
Total current liabilities	415,199	423,314	3,707,134
Long-term liabilities:			
Long-term debt (Notes 7 and 15)	118,299	125,750	1,056,241
Net defined benefit liability (Note 8)	35,149	34,167	313,830
Other long-term liabilities (Notes 7 and 13)	91,971	72,163	821,170
Total long-term liabilities	245,419	232,080	2,191,241
Contingent liabilities (Note 17)			
Net assets			
Stockholders' equity			
Common stock -			
Authorized: 1,490,000,000 shares;			
Issued: 663,480,693 shares;	114,464	114,464	1,022,000
Capital surplus (Note 9)	144,280	144,283	1,288,214
Retained earnings (Note 9)	695,721	717,030	6,211,795
Treasury stock, at cost			
48,287,110 shares in 2017 and 51,919,577 shares in 2016 (Note 9)	(69,636)	(81,025)	(621,750)
Total stockholders' equity	884,829	894,752	7,900,259
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	149,575	123,478	1,335,491
Net deferred gains (losses) on hedges	(3)	(7)	(27)
Foreign currency translation adjustments	(2,220)	3,051	(19,821)
Remeasurements of defined benefit plans (Note 8)	1,683	(3,850)	15,027
Total accumulated other comprehensive income	149,035	122,672	1,330,670
Stock acquisition rights	–	16	–
Non-controlling interests	47,422	45,802	423,410
Total net assets	1,081,286	1,063,242	9,654,339
Total liabilities and net assets	¥ 1,741,904	¥ 1,718,636	\$ 15,552,714

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Income

Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Net sales (Note 18)	¥ 1,410,173	¥ 1,455,916	\$ 12,590,830
Cost of sales (Note 18)	1,143,164	1,173,203	10,206,821
Gross profit	267,009	282,713	2,384,009
Selling, general and administrative expenses (Notes 11 and 18)	235,598	237,241	2,103,554
Operating income	31,411	45,472	280,455
Other income (expenses) (Note 12):			
Interest and dividends income	5,105	5,227	45,580
Interest expenses	(2,202)	(2,439)	(19,661)
Equity in earnings of affiliates	3,015	3,696	26,920
Foreign exchange transaction gain (loss)	(585)	(497)	(5,223)
Net loss on sale or disposal of property, plant and equipment	(4,906)	(1,609)	(43,804)
Net gain on sales of investment securities	46,205	15,111	412,545
Loss on devaluation of investment securities	(162)	(924)	(1,446)
Production restructuring costs	–	(2,265)	–
Repair costs	(5,793)	(7,672)	(51,723)
Repair reserve provisions	(31,945)	–	(285,223)
Other	(312)	741	(2,786)
	8,420	9,369	75,179
Income before income taxes and non-controlling interests	39,831	54,841	355,634
Income taxes (Note 13):			
Current	13,541	13,349	120,901
Deferred	(974)	6,788	(8,696)
	12,567	20,137	112,205
Net income	¥ 27,264	¥ 34,704	\$ 243,429
Net income attributable to non-controlling shareholders	2,038	1,116	18,197
Net income attributable to parent company shareholders	25,226	33,588	225,232

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Comprehensive Income

Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Net income	¥ 27,264	¥ 34,704	\$ 243,429
Other comprehensive income			
Valuation difference on available-for-sale securities	26,073	(24,502)	232,794
Net deferred gains (losses) on hedges	(1)	22	(9)
Foreign currency translation adjustments	(3,874)	(5,236)	(34,589)
Remeasurements of defined benefit plans	6,892	(26,118)	61,536
Share of other comprehensive income in associates accounted for using the equity method	(3,019)	1,325	(26,955)
Total other comprehensive income	26,071	(54,509)	232,777
Comprehensive income	53,335	(19,805)	476,206
Attributable to:			
Parent company shareholders	¥ 51,596	¥ (20,351)	\$ 460,679
Non-controlling shareholders	1,739	546	15,527

	Yen		U.S. dollars (Note 3)
	2017	2016	2017
Net assets per common share	¥ 1,680.55	¥ 1,618.66	\$ 15.00
Net income per common share			
primary	¥ 40.79	¥ 53.10	\$ 0.36
Net income per common share			
fully diluted	¥ 40.78	¥ 53.07	\$ 0.36

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	Number of shares issued (in thousands)	Millions of yen									
		Stockholders' equity					Accumulated other comprehensive income				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Stock acquisition rights	Non- controlling interests
Balance at March 31, 2015	700,480	114,464	144,898	737,241	(94,386)	147,914	(0)	7,247	21,450	16	45,248
Changes of items during the period											
Net income attributable											
to parent company shareholders				33,588							
Cash dividends paid				(20,376)							
Purchases of treasury stock					(20,067)						
Disposal of treasury stock				(1)	2						
Retirement of treasury stock	(20,000)			(33,422)	33,422						
Changes in valuation difference on available-for-sale securities						(24,436)					
Changes in deferred gains (losses) on hedges							(7)				
Changes in foreign currency translation adjustments								(4,196)			
Changes in remeasurements of defined benefit plans									(25,300)		
Changes in non-controlling interests			(615)								554
Other					4						
Total changes of items during the period	(20,000)		(615)	(20,211)	13,361	(24,436)	(7)	(4,196)	(25,300)		554
Balance at March 31, 2016	680,480	114,464	144,283	717,030	(81,025)	123,478	(7)	3,051	(3,850)	16	45,802
Balance at April 1, 2016	680,480	114,464	144,283	717,030	(81,025)	123,478	(7)	3,051	(3,850)	16	45,802
Cumulative effects of changes in accounting policies				27							1
Restated balance at April 1, 2016	680,480	114,464	144,283	717,057	(81,025)	123,478	(7)	3,051	(3,850)	16	45,803
Changes of items during the period											
Net income attributable											
to parent company shareholders				25,226							
Cash dividends paid				(19,919)							
Change of scope of consolidation				(78)							
Purchases of treasury stock					(15,174)						
Disposal of treasury stock											
Retirement of treasury stock	(17,000)			(26,565)	26,565						
Changes in valuation difference on available-for-sale securities						26,097					
Changes in deferred gains (losses) on hedges							4				
Changes in foreign currency translation adjustments								(5,271)			
Changes in remeasurements of defined benefit plans									5,533		
Changes in share acquisition rights										(16)	
Changes in non-controlling interests			(3)								1,619
Other					(2)						
Total changes of items during the period	(17,000)		(3)	(21,336)	11,389	26,097	4	(5,271)	5,533	(16)	1,619
Balance at March 31, 2017	663,480	114,464	144,280	695,721	(69,636)	149,575	(3)	(2,220)	1,683		47,422

DNP Annual Report 2017	Number of shares issued (in thousands)	Thousands of U.S. dollars (Note 3)									
		Stockholders' equity					Accumulated other comprehensive income				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Valuation difference on available-for-sale securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Stock acquisition rights	Non- controlling interests
Balance at April 1, 2016	680,480	1,022,000	1,288,241	6,402,054	(723,438)	1,102,482	(63)	27,241	(34,375)	143	408,946
Cumulative effects of changes in accounting policies				241							9
Restated balance at April 1, 2016	680,480	1,022,000	1,288,241	6,402,295	(723,438)	1,102,482	(63)	27,241	(34,375)	143	408,955
Changes of items during the period											
Net income attributable											
to parent company shareholders				225,232							
Cash dividends paid				(177,848)							
Change of scope of consolidation				(696)							
Purchases of treasury stock					(135,482)						
Disposal of treasury stock											
Retirement of treasury stock	(17,000)			(237,188)	237,188						
Changes in valuation difference on available-for-sale securities						233,009					
Changes in deferred gains (losses) on hedges							36				
Changes in foreign currency translation adjustments								(47,062)			
Changes in remeasurements of defined benefit plans									49,402		
Changes in share acquisition rights										(143)	
Changes in non-controlling interests			(27)								14,455
Other					(18)						
Total changes of items during the period	(17,000)		(27)	(190,500)	101,688	233,009	36	(47,062)	49,402	(143)	14,455
Balance at March 31, 2017	663,480	1,022,000	1,288,214	6,211,795	(621,750)	1,335,491	(27)	(19,821)	15,027		423,410

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2017 and 2016	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Cash flows from operating activities :			
Income before income taxes and non-controlling interests	¥ 39,831	¥ 54,841	\$ 355,634
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation	61,461	65,310	548,759
Impairment loss on fixed assets	896	110	8,000
Allowance for doubtful receivables	(1,560)	(1,393)	(13,929)
Net defined benefit asset (net)	(1,537)	(15,312)	(13,723)
Net defined benefit liability (net)	1,242	(8)	11,089
Equity in earnings of affiliates	(3,015)	(3,696)	(26,920)
Amortization of goodwill	2,317	2,201	20,688
Interest and dividends income	(5,105)	(5,227)	(45,580)
Interest expenses	2,202	2,439	19,661
Net gain on sales of investment securities	(46,205)	(15,111)	(412,545)
Loss on devaluation of investment securities	162	924	1,446
Net loss on sale or disposal of property, plant and equipment	4,970	1,665	44,375
Repair costs	5,793	7,672	51,723
Repair reserve provisions	31,945	–	285,223
Changes in assets and liabilities			
Trade receivables	4,444	17,881	39,679
Inventories	3,257	(10,532)	29,080
Trade payables	(99)	(4,726)	(884)
Other assets and liabilities	6,909	(3,912)	61,688
Sub-total	107,908	93,126	963,464
Payments for repair costs	(23,149)	(3,582)	(206,688)
Extra retirement payments	(104)	(991)	(929)
Payments of income taxes	(12,710)	(15,924)	(113,482)
Net cash provided by operating activities	71,945	72,629	642,365
Cash flows from investing activities :			
Net decrease in time deposits	241	38	2,152
Payments for purchases of property, plant and equipment	(50,031)	(64,416)	(446,705)
Proceeds from sales of property, plant and equipment	4,991	2,792	44,563
Payments for purchases of investment securities	(692)	(5,664)	(6,179)
Proceeds from sales of investment securities	60,878	19,950	543,554
Payments for purchases of intangible assets	(11,213)	(8,702)	(100,116)
Payments for acquisition of subsidiaries' shares, resulting in consolidation scope change	–	(8,981)	–
Proceeds from acquisition of subsidiaries' shares, resulting in consolidation scope change	1,289	–	11,509
Interest and dividends received	7,953	6,179	71,009
Other investing	596	(2,079)	5,321
Net cash provided by (used in) investing activities	14,012	(60,883)	125,108
Cash flows from financing activities :			
Net increase in short-term bank loans	(6,961)	2,131	(62,152)
Proceeds from long-term debt	6,680	5,803	59,643
Repayments of long-term debt	(6,983)	(10,553)	(62,348)
Proceeds from issuance of debentures	3,933	4,718	35,116
Payments for redemption of debentures	(555)	(1,050)	(4,955)
Interest paid	(2,209)	(2,436)	(19,723)
Dividends paid	(19,919)	(20,381)	(177,848)
Dividends paid to non-controlling shareholders	(338)	(453)	(3,018)
Payments for purchases of treasury stocks	(15,182)	(20,068)	(135,554)
Payments for purchase of stock in subsidiaries not resulting in a change in the scope of consolidation	–	(152)	–
Other financing	(3,689)	(4,725)	(32,938)
Net cash used in financing activities	(45,223)	(47,166)	(403,777)
Effect of exchange rate changes on cash and cash equivalents	(1,702)	(1,829)	(15,196)
Net increase (decrease) in cash and cash equivalents	39,032	(37,249)	348,500
Cash and cash equivalents at beginning of year	175,513	212,762	1,567,080
Increase in cash and cash equivalents resulting from change of scope of consolidation	19	–	170
Cash and cash equivalents at end of year	¥ 214,564	¥ 175,513	\$ 1,915,750

The accompanying notes are an integral part of these consolidated financial statements.

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Notes to Consolidated Financial Statements

Dai Nippon Printing Co., Ltd. and Consolidated Subsidiaries March 31, 2017 and 2016

1. Basis of Presenting the Consolidated Financial Statements

Dai Nippon Printing Co., Ltd. (hereinafter referred to as the "Company") and its domestic subsidiaries maintain their books of account and prepare their financial statements in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), and its foreign subsidiaries in conformity with the Company's group accounting policies based on International Financial Reporting Standards ("IFRS") or accounting principles generally accepted in the United States of America ("US GAAP").

The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Financial Services Agency of Japan as required by the Financial Instruments and Exchange Act of Japan. Certain reclassifications of accounts and modifications have been made in the accompanying consolidated financial statements to facilitate understanding by readers outside Japan. Certain reclassifications have also been made in the 2016 financial statements to conform with current classifications. In addition, the notes to the consolidated financial statements include additional information which is not required for disclosure under accounting principles and practices generally accepted in Japan.

2. Significant Accounting Policies

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant majority-owned subsidiaries. All significant intercompany accounts and intercompany transactions have been eliminated in consolidation.

Consolidated financial statements include the accounts of the Company and 106 consolidated subsidiaries. Some subsidiaries are consolidated with their fiscal year ends that differ from that of the Company. Significant transactions that took place between their fiscal year ends and the Company's fiscal year end are reflected in the consolidated financial statements.

Investments in non-consolidated subsidiaries are stated at cost and, for valuation of such investments, the equity method has not been applied since these investments are considered immaterial in the aggregate. However, investments are devalued if the decline in value is judged to be other than temporary.

Investments in 20% to 50% associated companies are principally accounted for by the equity method.

The differences between costs and underlying net assets at the date of investment in consolidated subsidiaries are included in other assets and are amortized over a period mainly for five years.

Translation of foreign currency accounts

Monetary assets and liabilities denominated in foreign currencies of the Company and its domestic subsidiaries are translated into Japanese yen at the exchange rates at the balance sheet date. Revenues and expenses denominated in foreign currencies are translated at the exchange rates prevailing during the year. The resulting translation gains (or losses) are included in other income (or expenses).

The translation of foreign currency financial statements of foreign consolidated subsidiaries into Japanese yen has been made for consolidation purposes in accordance with the translation method prescribed in the accounting standard for foreign currency transactions. The balance sheet accounts of the foreign consolidated subsidiaries are translated at the exchange rates in effect at the balance sheet date, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are translated at the average exchange rates during the year. The resulting translation adjustments are presented as "foreign currency translation adjustments" and "non-controlling interests" as reported in a separate component of accumulated other comprehensive income in the consolidated balance sheets.

Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturities that they present insignificant risk of changes in value because of changes in interest rates.

Inventories

Inventories are stated at cost which is determined substantially by the average method being written-down to reflect the decline of profitability.

Marketable securities and investment securities

Debt securities that are held to maturity with positive intent and ability ("held-to-maturity debt securities") are stated at amortized cost. Available-for-sale securities with available fair market values are stated at fair value. Unrealized gains and losses on available-for-sale securities, net of applicable taxes, are reported in a separate component of accumulated other comprehensive income in the consolidated balance sheets.

Non-marketable securities are stated at cost determined by the average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Property, plant and equipment and depreciation

The Company and its domestic consolidated subsidiaries mainly use the declining-balance method.

However, depreciation of buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and of facilities attached to buildings and structures acquired on or after April 1, 2016 are computed by the straight-line method.

Assets with an acquisition cost of ¥100,000 (\$893) or more but less than ¥200,000 (\$1,786) are depreciated equally over three years.

Foreign consolidated subsidiaries mainly use the straight-line method.

The estimated useful lives are summarized as follows:

Buildings and structures	3 to 50 years
Machinery and equipment	2 to 13 years

Leased assets

Leased assets with transfer of ownership are depreciated using the same depreciation method applied to owned fixed assets.

Finance leases which do not transfer ownership are capitalized. Depreciation for leased assets is computed on a straight-line basis over the lease period with a residual value of zero.

Intangible assets

Intangible assets included in other assets are carried at cost less accumulated amortization calculated by the straight-line method over their estimated useful lives. Software for internal use included in intangible assets are amortized by the straight-line method over five years.

Impairment of fixed assets

The Company and its subsidiaries review fixed assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Employees' retirement benefits

The Company and domestic significant consolidated subsidiaries applied the accounting standard for employees' retirement benefits. Under the accounting standard, accrued pension and liability for employees' retirement benefits has been provided based on the estimated amounts of projected pension and severance obligation and fair value of plan assets at the end of the fiscal year. Benefit formula basis is applied for the method of attributing expected retirement benefits to periods. Prior service cost is being amortized as incurred by the straight-line method over the period within the average remaining service periods (primarily 6 years) of the eligible employees. Actuarial gains and losses have been amortized from the following fiscal year by the declining-balance method over the periods within the average remaining service periods (primarily 9 years) of the eligible employees.

Research and development expenses

Research and development expenses are charged to income as incurred.

Income taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

Derivatives and hedging activities

The Company and certain consolidated subsidiaries use derivative financial instruments ("derivatives") for foreign currency forward contracts, interest rate swaps and currency swaps to manage the risk arising from fluctuation in foreign currency exchange rate and interest rates. The Company and its subsidiaries do not enter into derivatives contracts for speculative purposes.

Derivatives are carried at fair value and changes in fair value are recognized as gains or losses, unless the derivatives are used for hedging purposes.

If derivatives meet certain hedging criteria, recognition of gains or losses resulting from changes in the fair value of derivatives is deferred until the related gains or losses on hedged items are recognized.

In cases where foreign currency forward contracts or currency swap contracts meet certain hedging criteria, the hedged items are stated by the contracted rates ("alternative method"). In addition, if interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contracts is added to or deducted from interest on the assets or liabilities for which the interest rate swap contracts were executed ("exceptional accrual method").

Net assets and income per common share

Net assets per common share were computed based on the number of shares outstanding after deducting treasury stock at March 31, 2017 and 2016, respectively.

Net income per share was computed based on the average number of shares of common stock outstanding after deducting treasury stocks during each year. Necessary adjustments were made on the net income or the number of shares for diluted net income per share in order to reflect dilutive effects.

Change in accounting policies

(Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)

Effective from the consolidated fiscal year ended March 31, 2017, the Company has applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan (hereinafter, "ASBJ") Guidance No. 26, March 28, 2016 (hereinafter, "Implementation Guidance")). As a result, accounting treatment related to the recoverability of deferred tax assets has been partially revised.

With respect to application of the Implementation Guidance, the transitional treatment as stipulated in Paragraph 49 (4) of the Implementation Guidance was applied, and difference between deferred tax assets and deferred tax liabilities calculated by applying Paragraph 49 (3) Section 1 through 3 of the Implementation Guidance, and deferred tax assets and deferred tax liabilities as of March 31, 2016 has been added to retained earnings as of April 1, 2016.

The effect of this change on the consolidated financial statements as of April 1, 2016 is immaterial.

(Application of the Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

Effective from the consolidated fiscal year ended March 31, 2017, the Company and certain domestic consolidated subsidiaries have applied the "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (ASBJ Practical Issue Task Force No. 32, June 17, 2016 (hereinafter, "Practical Solution")) in conjunction with changes in corporation tax laws. As a result, the depreciation method of facilities attached to buildings and structures acquired on and after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The effect of this change on the consolidated financial statements for the year ended March 31, 2017 is immaterial.

3. Basis of Translating Financial Statements

The consolidated financial statements are expressed in Japanese yen in accordance with accounting principles generally accepted in Japan. The Japanese yen amounts have been translated into U.S. dollar amounts, solely for the convenience of the readers, at the rate of ¥112=U.S. \$1, the approximate exchange rate on the Tokyo Foreign Exchange Market at March 31, 2017. Such translations should not be construed as representations that the Japanese yen at that or any other rate could be converted into U.S. dollars.

4. Cash and Cash Equivalents

Cash and cash equivalents as of March 31, 2017 and 2016 were comprised of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Cash and deposits (excluding time deposits with a maturity over three months)	¥ 214,564	¥ 175,513	\$ 1,915,750

5. Marketable Securities and Investment Securities

The carrying amount and aggregate fair value of marketable and investment securities classified as held-to-maturity debt securities as of March 31, 2017 and 2016 were as follows:

March 31, 2017	Millions of yen		
	Carrying amount	Fair value	Difference
Others	¥ 201	¥ 201	¥ (0)

March 31, 2017	Thousands of U.S. dollars (Note 3)		
	Carrying amount	Fair value	Difference
Others	\$ 1,795	\$ 1,795	\$ (0)

March 31, 2016	Millions of yen		
	Carrying amount	Fair value	Difference
Others	¥ 201	¥ 201	¥ (0)

The acquisition cost and aggregate fair value of marketable and investment securities classified as available-for-sale securities including those with no fair value as of March 31, 2017 and 2016 were as follows:

March 31, 2017	Millions of yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair value
Stocks	¥ 114,279	¥ 214,887	¥ 2,599	¥ 326,567
Others	168	14	–	182
Total	¥ 114,447	¥ 214,901	¥ 2,599	¥ 326,749

March 31, 2017	Thousands of U.S. dollars (Note 3)			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair value
Stocks	\$ 1,020,348	\$ 1,918,634	\$ 23,205	\$ 2,915,777
Others	1,500	125	–	1,625
Total	\$ 1,021,848	\$ 1,918,759	\$ 23,205	\$ 2,917,402

March 31, 2016	Millions of yen			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair value
Stocks	¥ 130,399	¥ 179,660	¥ 4,324	¥ 305,735
Others	249	14	0	263
Total	¥ 130,648	¥ 179,674	¥ 4,324	¥ 305,998

The proceeds from sales of available-for-sale securities for the years ended March 31, 2017 and 2016 were ¥59,966 million (\$535,411 thousand) and ¥19,632 million, respectively. The gross realized gains on these sales for the years ended March 31, 2017 and 2016 were ¥44,915 million (\$401,027 thousand) and ¥15,136 million, respectively, and the gross realized losses on these sales for the years ended March 31, 2017 and 2016 were ¥979 million (\$8,741 thousand) and ¥1 million, respectively.

The redemption schedules for securities with maturities at March 31, 2017 and 2016 were as follows:

March 31, 2017	Millions of yen		
	Due in one year or less	Due after one year through five years	Over five years
Corporate bonds	¥ —	¥ 201	¥ 80

March 31, 2017	Thousands of U.S. dollars (Note 3)		
	Due in one year or less	Due after one year through five years	Over five years
Corporate bonds	\$ —	\$ 1,795	\$ 714

March 31, 2016	Millions of yen		
	Due in one year or less	Due after one year through five years	Over five years
Corporate bonds	¥ 48	¥ 201	¥ 80

6. Inventories

Inventories at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Merchandise and finished products	¥ 84,286	¥ 101,240	\$ 752,554
Work in process	29,130	29,686	260,089
Raw materials and supplies	23,897	25,021	213,366
	¥ 137,313	¥ 155,947	\$ 1,226,009

7. Short-term Bank Loans and Long-term Debt

Short-term bank loans at March 31, 2017 and 2016 were represented by bank loans and bank overdrafts, etc., bearing interest at an average rate of 0.35% per annum for 2017 and 0.62% per annum for 2016.

Long-term debt at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Unsecured debentures			
0.100 ~0.390% due 2022	¥ 3,520	¥ –	\$ 31,429
0.150 ~1.358% due 2021	52,440	52,480	468,214
0.100 ~1.705% due 2020	51,440	51,680	459,286
0.150 ~0.460% due 2019	2,240	2,650	20,000
0.150 ~0.340% due 2018	240	750	2,142
0.320 ~0.790% due 2017	–	990	–
Mortgage loans, maturing 2018~2023	3,491	11,131	31,170
Unsecured loans, maturing 2018~2023	12,728	14,824	113,643
	126,099	134,505	1,125,884
Current portion of long-term debt	(7,800)	(8,755)	(69,643)
	¥ 118,299	¥ 125,750	\$ 1,056,241

Finance lease obligations at March 31, 2017 and 2016 which are included in other long-term liabilities consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Finance lease obligations	¥ 16,226	¥ 14,343	\$ 144,875
Current portion of lease obligations	(5,027)	(3,972)	(44,884)
	¥ 11,199	¥ 10,371	\$ 99,991

The assets pledged as collateral for the Company and its consolidated subsidiaries' indebtedness, such as property, plant and equipment and other assets, were ¥7,531 million (\$67,241 thousand) and ¥9,879 million at March 31, 2017 and 2016, respectively.

Interest rates on mortgage loans ranged from 0.20% to 2.56% per annum for 2017 and from 0.47% to 2.86% per annum for 2016, while interest rates on unsecured loans ranged from 0.40% to 2.00% per annum for 2017 and from 0.47% to 2.00% per annum for 2016.

The aggregate annual maturities of long-term debt after March 31, 2017 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 3)
2018	¥ 7,800	\$ 69,643
2019	6,303	56,277
2020	53,482	477,517
2021	54,411	485,813
2022	3,929	35,080
2023 and thereafter	174	1,554
	¥ 126,099	\$ 1,125,884

The aggregate annual maturities of finance lease obligations after March 31, 2017 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 3)
2018	¥ 5,027	\$ 44,884
2019	4,550	40,625
2020	3,568	31,857
2021	834	7,446
2022	539	4,813
2023 and thereafter	1,708	15,250
	¥ 16,226	\$ 144,875

8. Retirement Benefits

The Company and its subsidiaries have several retirement plans covering all of their employees, i.e. defined benefit corporate pension plan, a governmental welfare contributory pension plan, lump-sum retirement plan and defined contribution pension plan. Upon retirement or termination of employment for reasons other than the cause of dismissal, employees are entitled to lump-sum payments based on the current rate of pay, length of services and accumulated number of points determined based on the employment services.

Under the Defined Benefit Pension Plan Law, the Company has established new defined benefit pension plans on March 1, 2005 under which most of the retirement benefit liability of the Company and its subsidiaries is covered by the employees' pension fund.

The reconciliation of beginning and ending balance of the projected benefit obligation at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars (Note 3)
Change in projected benefit obligation:			
Balance at the beginning of year	¥ 248,945	¥ 225,153	\$ 2,222,723
Service cost	14,196	12,678	126,750
Interest cost	1,092	1,667	9,750
Actuarial gain/loss	(1,858)	15,230	(16,589)
Benefits paid	(8,066)	(8,359)	(72,018)
Prior service cost	146	2,543	1,304
Change of scope of consolidation	(649)	143	(5,795)
Increase due to change from simplified method to principle method	—	209	—
Other	(24)	(319)	(214)
Balance at the end of year	¥ 253,782	¥ 248,945	\$ 2,265,911

The reconciliation of beginning and ending balance of the plan assets at March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars (Note 3)
Change in plan assets:			
Balance at the beginning of year	¥ 260,622	¥ 258,736	\$ 2,326,982
Expected return on plan assets	6,564	6,494	58,607
Actuarial gain/loss	6,152	(13,401)	54,929
Contributions by the employer	9,057	14,945	80,866
Benefits paid	(6,702)	(6,261)	(59,839)
Other	29	109	259
Balance at the end of year	¥ 275,722	¥ 260,622	\$ 2,461,804

The reconciliation of projected benefit obligation and plan assets to net defined benefit liability and asset recognized in the consolidated balance sheets as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars (Note 3)
Funded projected benefit obligation	¥ 219,605	¥ 215,598	\$ 1,960,759
Plan assets	(275,722)	(260,622)	(2,461,804)
	(56,117)	(45,024)	(501,045)
Unfunded projected benefit obligation	34,177	33,347	305,152
Net amount of liabilities and assets recognized in consolidated balance sheets	¥ (21,940)	¥ (11,677)	\$ (195,893)
Net defined benefit liability	35,149	34,167	313,830
Net defined benefit asset	(57,089)	(45,844)	(509,723)
Net amount of liabilities and assets recognized in consolidated balance sheets	¥ (21,940)	¥ (11,677)	\$ (195,893)

The components of net periodic benefit costs for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Service cost	¥ 14,178	¥ 12,626	\$ 126,589
Interest cost	1,092	1,667	9,750
Expected return on plan assets	(6,564)	(6,494)	(58,607)
Actuarial gain/loss	807	(7,038)	7,205
Amortization of prior service cost	656	880	5,857
Amortization due to change from simplified method to principle method	—	208	—
Net periodic benefit costs of the defined benefit plan	¥ 10,169	¥ 1,849	\$ 90,794

Remeasurements of defined benefit plans, before income-tax effect, recorded under accumulated other comprehensive income at March 31, 2017 and 2016 consisted of:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Unrecognized actuarial gain/loss	¥ 4,147	¥ (4,687)	\$ 37,027
Unrecognized prior service cost	(1,966)	(2,443)	(17,554)
Total	¥ 2,181	¥ (7,130)	\$ 19,473

The major categories of plan assets as of March 31, 2017 and 2016 were as follows:

	2017	2016
Bonds	19%	22%
Stocks	46%	45%
Alternative	26%	22%
Other	9%	11%
Total	100%	100%

Assumptions used for the years ended March 31, 2017 and 2016 were set forth as follows:

	2017	2016
Discount rate	0.8%	0.6%
Long-term expected rate of return on plan assets	mainly 2.5%	mainly 2.5%

9. Net Assets

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the stockholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors of such company may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria. However, its articles of incorporation have not stipulated that the Board of Directors may declare dividends at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to stockholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the stockholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

Cash dividends of ¥16.00 (\$0.1) per share, aggregating ¥9,852 million (\$87,964 thousand) were approved at the general stockholders' meeting held in June 29, 2017 with respect to the year ended March 31, 2017.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without

limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders.

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the stockholders which is determined by a specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of net assets.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of net assets or deducted directly from stock acquisition rights. At present, the Company has not issued such stock acquisition rights.

Upon approval by the resolution of the Board of Directors, the Company purchased 13,222 thousand shares of common stocks at an aggregate cost of ¥15,000 million (\$133,929 thousand) during the year ended March 31, 2017. Furthermore, the Company retired 17,000 thousand shares of common stocks at an aggregate cost of ¥26,565 million (\$237,188 thousand) during the year ended March 31, 2017.

10. Accounts with Non-consolidated Subsidiaries and Associated Companies

Account balances with non-consolidated subsidiaries and associated companies as of March 31, 2017 and 2016 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2017	2016	2017	
Trade receivables	¥ 4,319	¥ 5,133	\$ 38,563	
Other current assets	154	230	1,375	
Investment securities	53,374	56,464	476,554	
Long-term loan receivables	180	180	1,607	
Other investments	663	602	5,920	
Trade payables	4,180	4,420	37,321	
Accrued expenses	391	579	3,491	
Other current liabilities	991	973	8,848	

11. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2017	2016	2017	
Salaries and allowances	¥ 68,346	¥ 68,621	\$ 610,232	
Accrued bonuses	6,141	6,048	54,831	
Provision for retirement benefits	2,390	(616)	21,339	
Depreciation	16,062	15,880	143,411	
Research and development expenses	31,376	31,827	280,143	
Other	111,283	115,481	993,598	
	¥ 235,598	¥ 237,241	\$ 2,103,554	

12. Other Income (Expenses)

The following types of income (expenses) from non-consolidated subsidiaries and associated companies were included in other income.

	Millions of yen		Thousands of U.S. dollars (Note 3)	
	2017	2016	2017	
Interest and dividends income	¥ 45	¥ 76	\$ 402	
Rent income on facilities	137	148	1,223	
Rent expense	(28)	(114)	(250)	

13. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of different taxes based on income, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.9% and 33.1% for the years ended March 31, 2017 and 2016, respectively.

The actual effective tax rate reflected in the accompanying consolidated statements of income differs from the normal effective statutory tax rate primarily due to the effect of permanently non-deductible expenses, current operating losses and different tax rates applicable to foreign subsidiaries, etc.

No reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate for the year ended March 31, 2017 was shown because the difference was less than five percent of the statutory tax rate, although the difference for 2016 was shown as follows.

	2017	2016
Normal effective statutory tax rate	–	33.1%
Expenses not deductible for income tax purposes	–	3.4
Amortization of consolidation goodwill	–	0.9
Change in valuation allowance	–	(0.3)
Equity in earnings of affiliates	–	(2.2)
Loss on business integration	–	–
The effective income tax rate change	–	1.8
Other	–	0.0
Actual effective tax rate	–	36.7%

Net deferred tax assets (liabilities) at March 31, 2017 and 2016, resulting from temporary differences between the carrying amounts and the tax bases of assets and liabilities were reflected on the accompanying consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Prepaid expenses and other current assets	¥ 15,315	¥ 10,744	\$ 136,741
Other assets	7,286	6,732	65,054
Other current liabilities	(16)	(20)	(143)
Other long-term liabilities	(66,147)	(48,884)	(590,598)
Net deferred tax assets (liabilities)	¥ (43,562)	¥ (31,428)	\$ (388,946)

Significant components of deferred tax assets and liabilities at March 31, 2017 and 2016 were as follows :

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Deferred tax assets:			
Net defined benefit liability	¥ 15,083	¥ 14,281	\$ 134,670
Loss on devaluation of investment securities	2,802	2,967	25,018
Excess provision for doubtful receivables	1,331	2,044	11,884
Accrued bonuses	5,247	5,323	46,848
Loss on write-down of inventories	1,201	1,068	10,723
Operating loss carryforwards	31,240	35,062	278,929
Impairment loss on fixed assets	9,735	10,356	86,920
Other	22,188	18,645	198,106
Total deferred tax assets	88,827	89,746	793,098
Less: valuation allowance	(49,169)	(51,858)	(439,009)
Total	¥ 39,658	¥ 37,888	\$ 354,089
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (63,193)	¥ (52,409)	\$ (564,223)
Reserve for special depreciation	(68)	(90)	(607)
Undistributed earnings of subsidiaries	(800)	(806)	(7,143)
Net defined benefit asset	(17,469)	(14,028)	(155,973)
Other	(1,690)	(1,983)	(15,089)
Total	¥ (83,220)	¥ (69,316)	\$ (743,035)
Net deferred tax assets (liabilities) :	¥ (43,562)	¥ (31,428)	\$ (388,946)

14. Leases

Operating Leases

The amounts of outstanding future payments under non-cancelable operating leases as of March 31, 2017 and 2016 were also summarized as follows:

Future lease payments:	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
One year or less	¥ 5,268	¥ 5,107	\$ 47,036
More than one year	15,924	16,088	142,179
	¥ 21,192	¥ 21,195	\$ 189,215

15. Financial Instruments

1. Management policy

The Company and its consolidated subsidiaries manage fund surpluses through financial assets that have high levels of safety, and raise funds through bank loans and bond issuances. The Company and its subsidiaries also utilize derivative financial instruments to hedge the risk of exchange rate and interest rate fluctuations and do not enter into derivatives for trading or speculative purposes.

The trade receivables are exposed to credit risk of customers and the Company and its subsidiaries minimize the credit risk in accordance with internal customer credit management rules.

Long-term investments are mainly equity securities. Listed stocks are stated at fair value based on market prices quarterly.

2. Fair value of financial instruments

Fair value and difference compared to the carrying amounts reported in the consolidated balance sheets as of March 31, 2017 and 2016 were as follows:

March 31, 2017	Millions of yen		
	Carrying amounts reported in the consolidated balance sheet	Fair value	Differences
(1) Cash and deposits	¥ 215,455	¥ 215,455	¥ -
(2) Trade receivables	341,805	341,805	-
(3) Short-term and long-term investment securities	330,263	347,403	17,140
(4) Long-term loan receivables	4,390	4,359	
Allowance for doubtful receivables*1	(453)		
	3,937	4,359	422
Assets	¥ 891,460	¥ 909,022	¥ 17,562
(1) Trade payables	¥ 247,562	¥ 247,562	¥ -
(2) Short-term bank loans	43,036	43,036	-
(3) Long-term debts	126,099	130,261	4,162
Liabilities	¥ 416,697	¥ 420,859	¥ 4,162
Derivatives*2			
[1] Hedge accounting is not applied	¥ (107)	¥ (107)	¥ -
[2] Hedge accounting is applied	(14)	(14)	-
Total	¥ (121)	¥ (121)	¥ -

March 31, 2017	Thousands of U.S. dollars (Note 3)		
	Carrying amounts reported in the consolidated balance sheet	Fair value	Differences
(1) Cash and deposits	\$ 1,923,705	\$ 1,923,705	\$ -
(2) Trade receivables	3,051,830	3,051,830	-
(3) Short-term and long-term investment securities	2,948,777	3,101,813	153,036
(4) Long-term loan receivables	39,197	38,920	
Allowance for doubtful receivables*1	(4,045)		
	35,152	38,920	3,768
Assets	\$ 7,959,464	\$ 8,116,268	\$ 156,804
(1) Trade payables	\$ 2,210,375	\$ 2,210,375	\$ -
(2) Short-term bank loans	384,250	384,250	-
(3) Long-term debts	1,125,884	1,163,045	37,161
Liabilities	\$ 3,720,509	\$ 3,757,670	\$ 37,161
Derivatives*2			
[1] Hedge accounting is not applied	\$ (955)	\$ (955)	\$ -
[2] Hedge accounting is applied	(125)	(125)	-
Total	\$ (1,080)	\$ (1,080)	\$ -

March 31, 2016	Carrying amounts reported in the consolidated balance sheet	Millions of yen	
		Fair value	Differences
(1) Cash and deposits	¥ 176,694	¥ 176,694	¥ -
(2) Trade receivables	348,585	348,585	-
(3) Short-term and long-term investment securities	305,589	319,048	13,459
(4) Long-term loan receivables	6,793	6,772	
Allowance for doubtful receivables*1	(1,080)		
	5,713	6,772	1,059
Assets	¥ 836,581	¥ 851,099	¥ 14,518
(1) Trade payables	¥ 255,586	¥ 255,586	¥ -
(2) Short-term bank loans	55,316	55,316	-
(3) Long-term debts	134,505	140,170	5,665
Liabilities	¥ 445,407	¥ 451,072	¥ 5,665
Derivatives*2			
[1] Hedge accounting is not applied	¥ 700	¥ 700	¥ -
[2] Hedge accounting is applied	(17)	(17)	-
Total	¥ 683	¥ 683	¥ -

*1. Allowance for doubtful receivables associated with long-term loan receivables is deducted.

*2. Derivative assets and liabilities are on a net basis.

Note A: Fair value of financial instruments, marketable securities and derivatives

Assets

(1) Cash and deposits and (2) Trade receivables

The carrying amounts approximate fair value because of the short maturities of these instruments.

(3) Marketable and investment securities

The fair values of equity securities are measured at the quoted market price of the stock exchange and the fair values of debt securities are measured at the quoted price provided by financial institutions.

(4) Long-term loan receivables

The fair values of long-term loans are mainly determined based on the present value of the future cash flows discounted by government bonds rates plus certain credit risk premiums by categories according to the internal ratings.

Liabilities

(1) Trade payables and (2) Short-term bank loans

The carrying amounts approximate fair value because of the short maturities of these instruments.

(3) Long-term debts

The fair values of bonds issued by the Company and its subsidiaries are measured based on market price, if available. The fair values of bonds without market price are measured at the present value of total principal and interest discounted by using a rate which reflects its remaining period and credit risk.

The fair values of long-term debts are based on the present value of total principal and interest discounted by using the current borrowing rate for similar debt.

Derivatives

Information about the fair value for derivatives is included in Note 16.

Note B: Financial instruments whose fair value is extremely difficult to measure

March 31, 2017	Millions of yen		Thousands of U.S. dollars (Note 3)
	Carrying amounts	Carrying amounts	Carrying amounts
Unlisted equity securities	¥ 49,944	\$ 445,929	
Other	117	1,045	

March 31, 2016	Millions of yen	
	Carrying amounts	Carrying amounts
Unlisted equity securities	¥ 56,934	
Other	140	

The above are not included in "(3) Marketable and investment securities" because there is no market value and it is extremely difficult to measure the fair value.

16. Derivative Financial Instruments

Nature of Derivative Financial Instruments:

The Company and certain consolidated subsidiaries enter into derivatives for foreign currency forward contracts, currency swap contracts, and interest rate swaps to manage the risk arising from fluctuation in foreign currency exchange rates and interest rates. Derivatives related to currency are utilized to hedge foreign exchange risks associated with certain accounts receivable, accounts payable and other debts, including forecasted transactions, denominated in foreign currencies. Interest rate swaps are utilized to hedge interest rate risks on interest-bearing debts. The Company and its subsidiaries do not hold derivatives for speculative purposes.

Derivatives are subject to market risks and credit risks. Because the counterparties to those derivatives are limited to major international financial institutions, the Company and its subsidiaries do not anticipate any losses arising from credit risks. The Accounting Department controls and executes derivatives based on the internal policies of the Company.

Fair value of derivatives:

The contracted amount and fair value of derivatives at March 31, 2017 and 2016 were as follows:

Derivative transactions to which the Company and its subsidiaries did not apply hedge accounting

March 31, 2017	Millions of yen		
	Contracted amount	Fair value	Unrealized gain (loss)
Foreign currency forward contracts			
Receivables:			
U.S. dollars	¥ 17,345	¥ (108)	¥ (108)
Euro	1,859	1	1
Payables:			
U.S. dollars	24	(0)	(0)
	¥ 19,228	¥ (107)	¥ (107)

March 31, 2017	Thousands of U.S. dollars (Note 3)		
	Contracted amount	Fair value	Unrealized gain (loss)
Foreign currency forward contracts			
Receivables:			
U.S. dollars	\$ 154,866	\$ (964)	\$ (964)
Euro	16,598	9	9
Payables:			
U.S. dollars	215	(0)	(0)
	\$ 171,679	\$ (955)	\$ (955)

March 31, 2016	Millions of yen		
	Contracted amount	Fair value	Unrealized gain (loss)
Foreign currency forward contracts			
Receivables:			
U.S. dollars	¥ 19,805	¥ 690	¥ 690
Euro	1,605	10	10
Payables:			
U.S. dollars	182	0	0
	¥ 21,592	¥ 700	¥ 700

Derivative transactions to which the Company and its subsidiaries applied hedge accounting

Millions of yen			
March 31, 2017	Hedged items	Contracted amount	Fair value
Foreign currency forward contracts			
Receivables:			
U.S. dollars	Trade receivables	¥ 192	¥ (0)
Euro	Trade receivables	8	0
Payables:			
U.S. dollars	Trade payables	1,481	(13)
Sterling pound	Trade payables	2	(0)
Euro	Trade payables	164	(1)
Japanese yen	Trade payables	67	0
		¥ 1,914	¥ (14)
Interest rate swaps			
Receive floating and pay fixed	Long-term loan payables	¥ 70	¥ -

Thousands of U.S. dollars (Note 3)			
March 31, 2017	Hedged items	Contracted amount	Fair value
Foreign currency forward contracts			
Receivables:			
U.S. dollars	Trade receivables	\$ 1,714	\$ (0)
Euro	Trade receivables	72	0
Payables:			
U.S. dollars	Trade payables	13,223	(116)
Sterling pound	Trade payables	18	(0)
Euro	Trade payables	1,464	(9)
Japanese yen	Trade payables	598	0
		\$ 17,089	\$ (125)
Interest rate swaps			
Receive floating and pay fixed	Long-term loan payables	\$ 625	\$ -

Millions of yen			
March 31, 2016	Hedged items	Contracted amount	Fair value
Foreign currency forward contracts			
Receivables:			
U.S. dollars	Trade receivables	¥ 131	¥ -
Payables:			
U.S. dollars	Trade payables	2,220	(13)
Sterling pound	Trade payables	92	(3)
Euro	Trade payables	331	(1)
		¥ 2,774	¥ (17)
Interest rate swaps			
Receive floating and pay fixed	Long-term loan payables	¥ 5,202	¥ -

The fair values of foreign currency forward contracts and currency swap contracts subject to alternative method are included in trade receivables, trade payables and long-term loan payables as hedged items. The fair values of interest rate swap contracts subject to exceptional accrual method are included in long-term loan payables as hedged items. Fair value of derivatives is based on forward exchange rates or information provided by financial institutions at the end of the fiscal year.

17. Contingent Liabilities

The Company and its consolidated subsidiaries were guarantors of bank loans of other companies, amounting to approximately ¥3 million (\$27 thousand) and ¥7 million at March 31, 2017 and 2016, respectively. It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in settlement of trade accounts receivable and to subsequently discount such notes at banks. At March 31, 2017 and 2016, the Company and its consolidated subsidiaries were contingently liable on trade notes discounted in the amount of ¥626 million (\$5,589 thousand) and ¥628 million, respectively.

18. Segment Information

Outline of reportable segments:

The Company and its consolidated subsidiaries' reportable segments are components of the group whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segments and assess their performance, for which discrete financial information is available. The group's reportable segments consist of Information Communication, Lifestyle and Industrial Supplies, Electronics, and Beverages, based on a classification by commonality in manufacturing and marketing method of products.

Information on sales and profit, identifiable assets and other items by reportable segment

For 2017 :	Millions of yen						Adjustment	Consolidated
	Reportable segment				Total			
	Information Communication	Lifestyle and Industrial Supplies	Electronics	Beverages	Total			
Net sales and operating income								
Net sales								
Outside customers	¥ 797,047	¥ 387,143	¥ 169,402	¥ 56,581	¥ 1,410,173	¥ -	¥ 1,410,173	
Intersegment	4,157	1,052	6	39	5,254	(5,254)	-	
Total	801,204	388,195	169,408	56,620	1,415,427	(5,254)	1,410,173	
Segment income	18,884	14,434	16,484	2,430	52,232	(20,821)	31,411	
Segment assets	¥ 875,999	¥ 439,303	¥ 258,120	¥ 47,526	¥ 1,620,948	¥ 120,956	¥ 1,741,904	
Others								
Depreciation and amortization	¥ 27,661	¥ 17,028	¥ 12,083	¥ ¥2,367	¥ 59,139	¥ 2,322	¥ 61,461	
Amortization of goodwill	1,104	1,213	-	-	2,317	-	2,317	
Impairment loss	834	-	61	1	896	-	896	
Increase in property, plant and equipment and intangible assets	28,735	12,619	7,729	3,805	52,888	4,197	57,085	

For 2017 :	Thousands of U.S. dollars (Note 3)						Adjustment	Consolidated
	Reportable segment				Total			
	Information Communication	Lifestyle and Industrial Supplies	Electronics	Beverages	Total			
Net sales and operating income								
Net sales								
Outside customers	\$ 7,116,491	\$ 3,456,633	\$ 1,512,518	\$ 505,188	\$ 12,590,830	\$ -	\$ 12,590,830	
Intersegment	37,116	9,393	54	348	46,911	(46,911)	-	
Total	7,153,607	3,466,026	1,512,572	505,536	12,637,741	(46,911)	12,590,830	
Segment income	168,607	128,875	147,179	21,696	466,357	(185,902)	280,455	
Segment assets	\$ 7,821,420	\$ 3,922,348	\$ 2,304,643	\$ 424,339	\$ 14,472,750	\$ 1,079,964	\$ 15,552,714	
Others								
Depreciation and amortization	\$ 246,973	\$ 152,036	\$ 107,884	\$ 21,134	\$ 528,027	\$ 20,732	\$ 548,759	
Amortization of goodwill	9,857	10,831	-	-	20,688	-	20,688	
Impairment loss	7,446	-	545	9	8,000	-	8,000	
Increase in property, plant and equipment and intangible assets	256,563	112,670	69,009	33,973	472,215	37,473	509,688	

For 2016 :	Millions of yen						
	Reportable segment				Total	Adjustment	Consolidated
	Information Communication	Lifestyle and Industrial Supplies	Electronics	Beverages			
Net sales and operating income							
Net sales							
Outside customers	¥ 816,875	¥ 381,648	¥ 199,330	¥ 58,063	¥ 1,455,916	¥ -	¥ 1,455,916
Intersegment	4,747	999	20	32	5,798	(5,798)	-
Total	821,622	382,647	199,350	58,095	1,461,714	(5,798)	1,455,916
Segment income	29,364	12,597	20,509	991	63,461	(17,989)	45,472
Segment assets	¥ 892,969	¥ 441,761	¥ 273,403	¥ 45,800	¥ 1,653,933	¥ 64,703	¥ 1,718,636
Others							
Depreciation and amortization	¥ 27,514	¥ 17,026	¥ 15,008	¥ 3,941	¥ 63,489	¥ 1,821	¥ 65,310
Amortization of goodwill	1,593	607	-	1	2,201	-	2,201
Impairment loss	102	-	-	8	110	-	110
Increase in property, plant and equipment and intangible assets	52,537	23,277	13,277	5,781	94,872	2,393	97,265

[Related information]

Information by geographic area

For 2017 :	Millions of yen			
	Japan	Asia	Other region	Total
Net sales	¥ 1,207,680	¥ 126,210	¥ 76,283	¥ 1,410,173

For 2017 :	Thousands of U.S. dollars (Note 3)			
	Japan	Asia	Other region	Total
Net sales	\$ 10,782,857	\$ 1,126,875	\$ 681,098	\$ 12,590,830

For 2016 :	Millions of yen			
	Japan	Asia	Other region	Total
Net sales	¥ 1,221,330	¥ 146,925	¥ 87,661	¥ 1,455,916

Independent Auditors' Report

To the Board of Directors of Dai Nippon Printing Co., Ltd.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Dai Nippon Printing Co., Ltd. and consolidated subsidiaries as of March 31, 2017 and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information (all expressed in Japanese yen).

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dai Nippon Printing Co., Ltd. and consolidated subsidiaries as of March 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.



ARK MEIJI AUDIT & Co.

Tokyo, Japan
June 29, 2017

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Major Subsidiaries and Affiliates

(As of March 31, 2017)

Printing

		Capital (¥ million)	Ownership ratio of voting rights (%)
DNP Hokkaido Co., Ltd.	General affairs, accounting work and other business services	350	100.0
DNP Tohoku Co., Ltd.	General affairs, accounting work and other business services	350	100.0
DNP Chubu Co., Ltd.	General affairs, accounting work and other business services	350	100.0
DNP Nishi Nippon Co., Ltd.	General affairs, accounting work and other business services	400	100.0
DNP Shikoku Co., Ltd.	Film making, printing, bookbinding; production and sale of packaging	50	97.0
Information Communication			
Publishing			
Maruzen CHI Holdings Co., Ltd.	Investment in operating companies	3,000	53.0
Toshokan Ryutsu Center Co., Ltd.	Sale of books, creation of data, library operation support, and consulting	266	53.0 (53.0)
MARUZEN-YUSHODO Company, Limited	Education and academic businesses; retail stores; publishing; commercial facility/store interiors, etc.	100	53.0 (53.0)
MARUZEN PUBLISHING CO., LTD.	Publishing	50	53.0 (53.0)
MaruzenJunkudo Bookstores Co., Ltd.	Sale of books, magazines, and stationery	50	53.0 (53.0)
BOOKOFF CORPORATION LIMITED	Used bookstore operation; development and operation of new/used goods businesses; management guidance for affiliated stores	3,652	15.6 (9.4)
Bunkyo Group Holdings Co., Ltd.	Investment in operating companies	2,035	23.7
2Facto, Inc.	Production, agency and sale of digitized books, magazines, and other published materials	500	80.5 (0.7)
VISUALJAPAN Inc.*	Development, sale, and maintenance of computer software	435	86.7
DNP Book Factory Co., Ltd.	Offset printing and bookbinding	200	100.0
DNP Media Art Co., Ltd.	Film making	180	100.0
SHUFUNOTOMO Co., Ltd.	Editing and sale of books and magazines	100	99.8
MobileBook.jp Inc.	Electronic publishing and distribution platform services; e-book distribution service	100	63.4
Kyoiku-Shuppan Co., Ltd.	Editing and sale of textbooks and educational materials	60	48.2
Publishing Marketing Innovation Japan Co., Ltd.	Research and policy planning aimed at activating Japan's publications distribution markets	50	50.0
Oguchi Book Binding & Printing Co., Ltd.	Printing and bookbinding	49	100.0 (15.1)
Tien Wah Press (Pte.) Ltd.	Film making, printing and bookbinding	(\$1,000)	100.0
		4,600	
Information Innovation			
INTELLIGENT WAVE INC.	Development and maintenance of software	843	50.6
DNP Art Communications Co., Ltd.	Planning, production and sale of artistic images and videos	300	100.0
DNP Graphica Co., Ltd.	Printing and bookbinding	100	100.0
DNP Communication Design Co., Ltd.	Planning, production, film making and plate making	100	100.0
DNP Data Techno Co., Ltd.	Production and sale of business forms and plastic cards	100	100.0
DNP Digital Solutions Co., Ltd.	Planning, design, maintenance and operation of information systems	100	100.0
DNP SP Tech Co., Ltd.	Planning and production of promotional materials	80	100.0
NBC Co., Ltd.*	Mailing of printed matter, etc.	20	100.0
DNP Social Links Co., Ltd.	Planning, development and operation of online advertising and computer systems, etc.	10	100.0
DNP Media Support Co., Ltd.	Production and sale of all types of printed matter	10	95.0
MK Smart Joint Stock Company	Production and sale of plastic cards and business forms	(VND 1,000,000)	36.3
		100,000	
PT. Wahyu DNP Bureau	Card-issuing services	(US\$1,000)	45.0
		2,000	
DNP Information and Services (Shanghai) Co., Ltd.	Planning and production of electronic media	(CNY 1,000)	100.0
		1,000	(100.0)
Imaging Communication			
DNP Imagingcomm Co., Ltd.	Production and processing of thermal mass transfer media and dye-sublimation media	100	100.0
DNP Photo Imaging Japan Co., Ltd.	Sale of photo-related products; operation of ID photo booths and automated commemorative photo booths	100	100.0
DNP ID System Co., Ltd.	Sale of equipment and media for making driver licences	60	100.0
DNP Imagingcomm Asia Sdn. Bhd.	Production, processing and sale of thermal mass transfer media and dye-sublimation media; sale of photo-related products	(RM 1,000)	100.0
		190,000	
DNP Imagingcomm America Corporation	Production, processing and sale of thermal mass transfer media and dye-sublimation media; sale of photo-related products	(US\$1,000)	100.0
		71,980	(100.0)
Foto Fantasy, Inc.	Development, production and operation of automated commemorative photo booths	(US\$1,000)	100.0
		10	(100.0)
DNP Photo Imaging Europe SAS	Sale of photo-related products	(Euro 1,000)	100.0
		2,408	
DNP Imagingcomm Europe B.V.	Processing and sale of thermal mass transfer media and dye-sublimation media	(Euro 1,000)	100.0
		1,000	
Lifestyle and Industrial Supplies			
Packaging			
Lifescape Marketing Co., Ltd.	Research, compilation and provision of various kinds of information about purchasing and consumption of foods and beverages	430	84.0
DNP Technopack Co., Ltd.	Production, printing and processing of packaging materials	300	100.0
Sagami Yoki Co., Ltd.	Production of plastic tubes	200	90.0
Aseptic Systems Co., Ltd.	Manufacturing and sale of aseptic filling systems, and related consulting	100	100.0
DNP Hoso Co., Ltd.	Filling and processing of packages	80	100.0
DNP Field Eyes Co., Ltd.	Marketing research and consulting	50	100.0
DNP Vietnam Co., Ltd.	Production and sale of packaging materials	(US\$1,000)	100.0
		31,500	(20.0)
PT DNP Indonesia	Production and sale of packaging materials	(US\$1,000)	51.0
		26,000	
Living Spaces			
DNP Lifestyle Materials Marketing Co., Ltd.	Sale of decorative products	300	100.0
DNP Elio Co., Ltd.	Printing and processing of steel, aluminum and other metals	300	50.0
DNP Living Space Co., Ltd.	Production, printing and processing of decorative products	200	100.0
DNP Tamura Plastic Co., Ltd.	Manufacturing and sale of automotive accessories	60	100.0
Industrial Supplies			
DNP High-performance Materials Co., Ltd.	Production of lithium-ion battery components	200	100.0

		Capital (¥ million)	Ownership ratio of voting rights (%)
Electronics			
Display Components			
DNP Color Techno Kameyama Co., Ltd.	Production and sale of semiconductor color filters for LCDs	2,500	100.0
DNP Precision Devices Himeji Co., Ltd.	Production of display-related components	400	100.0
DNP Denmark A/S	Production and sale of precision electronic components	(Dkr 1,000) 135,000	100.0
Electronic Devices			
DT Fine Electronics Co., Ltd.	Production and sale of precision electronic components	490	65.0
DNP Fine Optronics Co., Ltd.	Production of precision electronic components	300	100.0
DNP LSI Design Co., Ltd.	Design and production of drawings used in semiconductor production	100	100.0
Photronics DNP Mask Corporation	Production and sale of semiconductor photomasks	(NT 1,000) 2,198,185	49.9
DNP Photomask Europe S.p.A.	Production and sale of semiconductor photomasks	(Euro 1,000) 47,200	80.5
Other			
Nihon Unisys, Ltd.	Development and sale of software; computer system support services	5,483	20.6
DNP Fine Chemicals Co., Ltd.	Production and sale of chemical products	2,000	100.0
DNP Fine Chemicals Utsunomiya Co., Ltd.	Manufacturing and sale of pharmaceutical products	100	100.0 (100.0)
All About Inc.	Operation of comprehensive information website based on "expert guides;" Internet advertising	1,199	31.8
DNP Logistics Co., Ltd.	Packing, shipping, freight forwarding and warehousing operations	626	100.0
DIC Graphics Corporation	Production and sale of printing ink	500	33.4
PSP Corporation	Planning, research, development, sales and maintenance of internal information systems for hospitals and clinics	379	20.1
DNP Engineering Co., Ltd.	Manufacturing, repair and sale of printing equipment and other machinery	100	100.0
DNP Multi Print Co., Ltd.	Film making, printing and bookbinding	100	100.0
DNP Trading Co., Ltd.	Buying and selling of printing paper and various other types of merchandise	100	94.3
CYBER KNOWLEDGE ACADEMY Co., Ltd.	Operation of academy for training and developing personnel to defend against targeted cyber attacks	70	100.0
My Earth Projects LLC*	Planning, production and sale of trading cards	50	99.8
DNP HyperTech Co., Ltd.	Production and sale of computers and peripheral devices; development, production and sale of software	40	100.0
CP Design Consulting Co., Ltd.*	Personal information protection and risk management consulting	40	92.5
CAFI Corporation*	Remote diagnostic imaging service	32	51.1
At Table Co., Ltd.*	Research, consulting and planning related to production and sales promotions for supermarkets and other retailers	30	66.6
M's Communicate Co., Ltd.*	Consulting and intermediary services related to customer membership services	30	20.0
DNP Dexerials Consulting Co., Ltd.	Business planning and proposals	10	50.0
DNP Corporation USA	Investment in operating companies	(US\$1,000) 62,164	100.0 (7.1)
DNP Holding USA Corporation	Investment in operating companies	(US\$1,000) 100	100.0 (100.0)
DNP Business Consulting (Shanghai) Co., Ltd.*	Study of Chinese market and business feasibility	(US\$1,000) 420	100.0
DNP Asia Pacific Pte. Ltd.	Coordination of DNP business operations in the Southeast Asia/Oceania region	(S\$1,000) 2,000	100.0
Personal Welfare, Facility Service and Others			
DNP Facility Services Co., Ltd.	Building maintenance, cleaning and security; operation of sports and welfare facilities	350	100.0
DNP Information Systems Co., Ltd.	Design, development and maintenance of information systems; production and sale of software	100	100.0
Metro Systems Co., Ltd.	Planning, design, development, maintenance and support operations for information systems	100	100.0 (90.0)
DNP Human Services Co., Ltd.	Planning and management related to personnel plans	90	100.0
Uzumine Country Club Co., Ltd.*	Management of golf courses	33	88.8
DNP Accounting Services Co., Ltd.	Accounting agency and consulting services	30	100.0
DNP Techno Research Co., Ltd.*	Studies related to patents; preparation of contracts	20	100.0
Overseas Sales			
DNP Korea Co., Ltd.*	Sale of precision electronic components	(Krw 1,000) 500,000	100.0
Dai Nippon Printing (Thailand) Co., Ltd.*	Sale of packaging supplies and precision electronic components	(THB 1,000) 200,000	100.0
DNP Taiwan Co., Ltd.	Sale of precision electronic components	(NT 1,000) 10,000	100.0
DNP International Trading (Shanghai) Co., Ltd.*	Sale of printed matter and photo-related products, etc.	(US\$1,000) 5,400	100.0
DNP America, LLC	Sale of printed matter, precision electronic components, and decorative materials	(US\$1,000) 100	100.0 (100.0)
DNP Singapore Pte. Ltd.*	Sale of precision electronic components and decorative materials	(S\$1,000) 350	100.0
DNP Europa GmbH*	Sale of printed matter and decorative materials	(Euro 1,000) 92	100.0
Dai Nippon Printing Co. (Australia) Pty. Ltd.*	Sale of printed matter	(A\$1,000) 70	100.0
Beverages			
Beverages			
Hokkaido Coca-Cola Bottling Co., Ltd.	Production and sale of soft drinks	2,935	59.9 (6.4)

Notes: 1. Voting rights ownership ratios (in brackets) indicate the percentage of shares owned through DNP's subsidiaries or affiliates.
2. Companies with an asterisk are neither consolidated nor accounted for by the equity method.

DNP's Main Proprietary Technologies

Information Processing

With the digitization of printing, DNP has been developing a wide range of original information processing technologies including image processing, language processing, information security and networking technologies. We are also pursuing research and development in fields like computer vision, regenerative medicine, and artificial intelligence.

Image Processing and Recognition Technologies

TECHNOLOGIES

Image processing and recognition technologies apply appropriate information processing techniques to still or moving images in order to extract useful information. They enable information media to perform sophisticated information processing tasks that only humans were able to accomplish in the past. Sometimes these technologies even make it possible to see information that humans cannot recognize without help. Since DNP began digitizing the text and image data that we handle in our printing businesses, we began research and development in fields such as color reproduction, in which we have continued to develop related technologies. We are now developing applications in a wide range of fields including security, energy conservation, education, medical care, and entertainment. We are working at a variety of levels from developing our own algorithms to developing architecture.

PRODUCTS & SERVICES

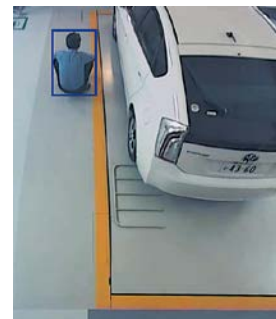
Real-time image analysis system

We developed a system for perceiving the danger of a potential accident or disaster by analyzing images from surveillance cameras in real time and quickly discovering anomalies. As an example, the system can help prevent people from being accidentally trapped in automated parking lots by detecting the presence of someone still inside at closing time. To supplement the use of motion detectors, DNP has developed a new technology that we call "stationary object detection," for perceiving a person who has fallen. In order to capture the movement of people and objects, DNP's original algorithm makes distinctions according to changes in lighting, shadows and reflections, and initiates follow-up processing based on information about colors and shapes. Parameters for this processing can be set according to the requirements of each environment. One important feature of this system is the ability to configure it very specifically in order to derive the most useful analysis.

● Motion Detection



● Stationary object detection



Information Security Technologies

TECHNOLOGIES

DNP has three core types of technologies related to this area: smart card OS and application development technologies; smart card issuing technologies; and network server system development and operation technologies. In addition to manufacturing and issuing smart cards, we can develop a variety of products and services such as IC software and peripheral smart card-based systems by refining these three types of technologies.

PRODUCTS & SERVICES

Smart cards

A smart card contains a microchip with non-volatile memory capable of storing a large amount of data, and a CPU. Smart cards may be contact-type cards, contactless, or dual interface cards that combine contact-type and contactless functions. DNP maintains one of the leading shares of the Japanese smart card market, supplying every type of card—from credit cards, cash cards and transportation cards to electronic money cards—used by a variety of business types and business formats.



Microfabrication

DNP has cultivated highly precise processing technologies through making masters (printing plates) as part of the printing process. By applying those technologies to electronics, we have created a large number of micro-processed products including semiconductor photomasks and color filters for liquid crystal displays. We continue to explore the limits of the microscopic world through our cutting-edge technologies.

Photolithography

TECHNOLOGIES

Photolithography is a technology for forming patterns by shining light on the surface of a substrate coated with photosensitive material. The pattern forms because some areas are exposed and some are not. DNP has honed its photolithography technologies through the production of masters used for printing. We apply these technologies to the manufacture of products like photomasks and color filters.

PRODUCTS & SERVICES

Photomasks

A photomask is a master used for forming semiconductor circuits. In order to make cutting-edge semiconductors, we need to use various special techniques in order to make photomasks that can produce circuits whose lines have the necessary resolution of 14 to 28nm*. DNP contributes to the miniaturization of semiconductor product line widths by providing photomasks that control not only the intensity but also the phase and polarity of the light that passes through them.

* nm (nanometer): one billionth of a meter

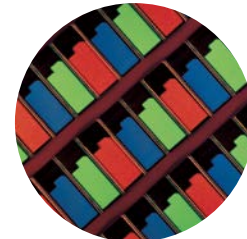
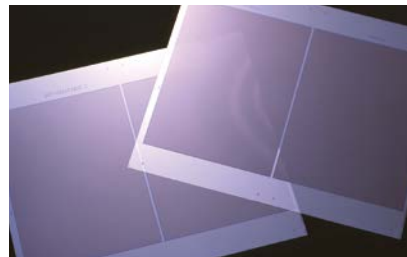


PRODUCTS & SERVICES

Color filters

We have developed high quality color filters—an important component of liquid crystal displays—by developing new coloring materials and using pigment miniaturization and dispersion techniques along with photolithography technologies for patterning of colored layers. In response to the trend toward multi-colored layers, we have also developed multicolor filters with expanded color reproduction ranges of four or five colors.

Color filters



Close-up photograph of a color filter

Nanoimprinting

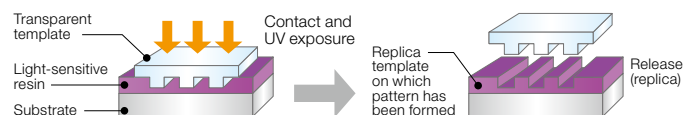
TECHNOLOGIES

Nanoimprinting is a method that enables the transfer of patterns with line width of 20nm or less by pressing a template against a resin-coated substrate. The development of nanoimprinting makes use of knowledge and skills from a wide range of fields, including clarification of the mechanisms by which polymers react when exposed to light or to an electron beam, a good grasp of a material's behavior at its interface, and simulation technologies in addition to microfabrication and precision measuring techniques. Based on the technologies we have cultivated through our photomask business, we have been pursuing development in collaboration with materials and equipment manufacturers.

PRODUCTS & SERVICES

Development of various products

Nanoimprinting is expected to be useful in fields like next-generation semiconductor lithography, ultrahigh density HDD media manufacturing, and optical elements. Quartz or silicon is generally used for making master and replica templates (dies), and dry etching is used for forming a concavo-convex shape on the template surface. DNP has developed a replica template by using nanoimprinting lithography and a master template made with electron beam lithography. We plan to supply this next-generation technology to a wide variety of corporate clients.



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Precision Coating

Precision coating refers to processing that covers a surface by causing a film to adhere to it uniformly.

By combining material design technologies with film thickness control, multi-layering, surface processing and other technologies, we can bestow diverse functions such as optical properties, barrier properties, and heat resistance.

With extremely broad possibilities for application, this is one of DNP's core technologies and we make use of it across business unit boundaries.

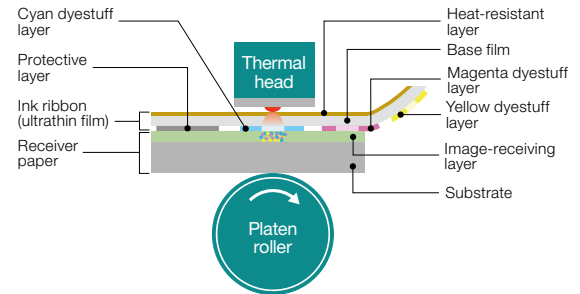
High-speed Thin Film Coating Technology

TECHNOLOGIES

DNP has coating technologies that we employ in the manufacture of ink ribbons for dye-sublimation thermal transfer printers that print digital images, which enable us to apply various functional materials in a uniform layer about $1\mu\text{m}^*$ thick onto ultrathin film only about $5\mu\text{m}$ thick, at a speed of several hundred meters per minute. We have also developed materials such as coloring agents that are exceptionally well suited for thin film coating and overcoat materials, enabling us to succeed at high-speed thin-film coating in terms of both processing and materials.

* μm (micrometer): one millionth of a meter

● Dye-sublimation thermal transfer



PRODUCTS & SERVICES

Dye-sublimation thermal transfer printing media

Printers that use dye-sublimation thermal transfer printing media form images by transferring dyestuffs from ink ribbons to receiver paper. Controlling heat energy in the printer's thermal head makes it possible to adjust the concentration of dyestuffs in each dot. Because they can reproduce some 16,700,000 colors in a single dot, these printers can produce high quality images. In addition to manufacturing and selling ink ribbons and receiver paper, DNP is further expanding and evolving its photo print business by developing new printing systems and providing a variety of solutions that make use of its systems.

Precision Thin Film Clean Coating Technology

TECHNOLOGIES

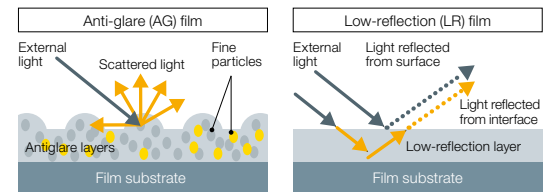
This technology is based on a printing technique that involves applying a film of liquefied polymeric material while very precisely controlling film thickness. The manufacturing processes that allow sub-micron film thickness control and simultaneous application of multiple layers are performed in a high-level clean environment. By combining material design and optical design technologies that DNP has accumulated through years of printing experience, we will continue to supply functional optical films with both desirable optical characteristics and high-quality appearance.

PRODUCTS & SERVICES

Anti-reflection films

Anti-reflection films for displays—used to suppress glare from fluorescent or other types of light—were developed as a result of applying DNP's precision thin film clean coating technology. DNP's anti-reflection films hold one of the top shares in the world market for anti-reflection films used on liquid crystal displays. One of the reasons for the films' popularity is the multi-layer thin film coating used in DNP's films, which makes more effective use of optical interference compared to single-layer coatings.

● Main types of anti-reflection films



Unevenness of the surface of the film causes light to scatter, making glare less noticeable. It has a matte surface.

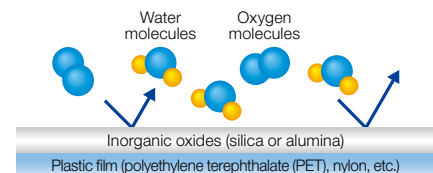
Glare is reduced because reflected light waves are canceled due to interference. The surface is shiny.

Vapor Deposition

TECHNOLOGIES

Vapor deposition is a coating technology whereby a gasified substance forms a coating on a plastic film within a vacuum. Alumina and silica are used in vapor deposition, with silica being used particularly in a method called "chemical vapor deposition." In chemical vapor deposition, because silica is deposited on the film surface at the molecular level, it is possible to form a minute layer with strong barrier properties despite its thinness. DNP creates a variety of products by continuously performing chemical vapor deposition on flexible plastic film.

● Transparent gas barrier film



PRODUCTS & SERVICES

Barrier films

Barrier films are used to package goods such as foods and medical supplies in order to prevent oxidation or drying, and to keep out moisture. Unlike aluminum foil and aluminum-based vapor deposition films, DNP's transparent vapor deposition film (IB* film) can be used in a microwave oven and is amenable to detection of metallic impurities. Also, IB film is an environmentally conscious product whose production consumes less energy than that of aluminum foil.

* Innovative Barrier



Post-processing

Starting with bookbinding and processing of paper products and moving on to film packaging, plastic forming and aseptic bottle filling systems, DNP has developed one post-printing processing technology after another.

We have also acquired advanced technologies through testing, measuring, and analyzing a variety of products.

Aseptic Filling

TECHNOLOGIES

DNP has developed aseptic systems for filling sterilized packaging materials with food or beverages in a sterile environment, thereby contributing to improving food safety and decreasing the burden placed by packaging materials on the environment. In addition to food preservation and sterilization technologies, we make use of a wide variety of technologies in the development of these systems, including filling machinery design, control, sensing technologies, and packaging materials design technologies.

PRODUCTS & SERVICES

Aseptic filling systems

DNP's aseptic filling systems can be adapted for various packaging formats and filling volumes and can be used for high-quality filling. One aseptic filling system for pasta sauce, noodle broth or other liquid foods can be used to fill any amount from 10 to 1,000ml; in other words, it can manufacture anything from a single-portion package to a commercial use product. Furthermore, DNP's system allows the supply of products that were difficult to process by conventional retort methods because those methods required heating for longer time periods, which tended to break down the contents. Because DNP's aseptic PET plastic bottle filling systems enable filling at room temperature, unlike conventional systems that required filling at high temperatures, it is possible to use lighter, thinner bottles that are good for reducing the burden placed on the environment.

● Aseptic filling system for PET (polyethylene terephthalate) bottles



Assessment and Analysis Technologies

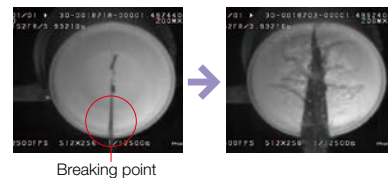
TECHNOLOGIES

Assessment and analysis technologies are indispensable to strengthening and developing manufacturing in today's changing market environment. In our product development, DNP combines the latest analysis and measuring equipment and theories, identifies materials that can form product value, and explicates the mechanisms by which those materials express their functionality. We bring visualizing and sensing technologies into each factory and analyze its production processes in order to stabilize quality and boost productivity. We endeavor to improve working environments so as to add further protection to workers and solve all types of problems that arise on the factory floor.

PRODUCTS & SERVICES

Analyzing breaking strength based on drop test of packaging cup

The market wants packaging cups made of thinner resin in order to minimize weight and cost, but without sacrificing strength. In conventional strength testing, cups are actually dropped and their strength is evaluated based on observation of broken cups, but by this method it is difficult to determine the specific point at which breakage was triggered. Therefore, we began using a high-speed camera to enable detailed analysis of breakdown behavior. By capturing the breaking point, we were able to select the most suitable resin and design optimal manufacturing processes.



Machinery and Equipment Design Technologies

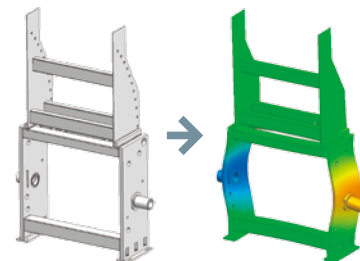
TECHNOLOGIES

Some of DNP's equipment requires a high level of precision and quality that existing equipment manufacturers cannot provide. In addition to making use of mechatronics, for the past 20 years DNP has been using structural analysis technologies in its design processes rather than relying exclusively on the experience and intuition of veteran designers. Moreover, we continually work to make our equipment more reliable based on vibration analysis and equipment maintenance information generated in-house.

PRODUCTS & SERVICES

Printer frame deformation analyzer

Because the printers that make books, packaging materials and other products have precision-processed cylindrical plates that rotate with a high degree of precision, they must be assembled to a highly accurate margin of error of less than 50µm. Also, because the paper or other print stock that gets pushed onto the plate can weigh more than 500kg, it is important that the machine be designed to prevent deformation of its frame and reduce resulting effects on printed matter. DNP uses a scaled-down model for experimentation as well as strength and vibration analysis in order to predict characteristic number of vibrations and amount of frame deformation.



Graphic illustration showing where a machinery frame will be subject to stress

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Glossary

1. DNP-related Terms

DNP Group Vision 2015

The DNP Group's basic management policies. A revised version of the "DNP Group Vision for the 21st Century" that was drawn up in 2001, DNP Group Vision 2015 was officially adopted in October 2015. The vision is comprised of three main elements, the first of which is central: Corporate Philosophy, Business Vision, and Guiding Principles.

Corporate Philosophy

The DNP Group connects individuals and society, and provides new value.

Business Vision

Use P&I innovations to expand business, primarily around four growth areas.

- "P&I innovations" means the creation of new value—something that did not exist before—in the form of innovative concepts, products, or services, etc. made by combining DNP's strengths (in printing (P) and information (I), in technology, sales, project planning, etc.) with the strengths of our many partners.
- The four growth areas are Knowledge and Communication, Food and Healthcare, Lifestyle and Mobility, and Environment and Energy. Of the social issues that DNP analyzed, we designated as growth areas those areas where we can likely solve problems by applying new value generated through P&I innovations, and where we can increase DNP's corporate value and contribute to society by solving those problems.

Guiding Principles:

Taiwa (dialogue) and cooperation

- Each and every DNP employee should become a professional in his or her field and generate innovative products and services as a result of actively engaging in "taiwa and cooperation" within and outside of DNP.

The DNP Group Code of Conduct

A set of codes underlying all types of activities aimed at achieving our Group Vision. All DNP employees must obey these codes.

- Contributing to the development of society
- Social contribution as a good corporate citizen
- Compliance with the laws and social ethics
- Respect for human dignity and diversity
- Environmental conservation and the realization of a sustainable society
- Realization of a "universal society"
- Ensuring the safety and quality of our products and services
- Ensuring information security
- Proper disclosure of information
- Realization of a safe and vibrant workplace

2. Information Communication

Augmented reality (AR)

A technology for displaying text, images, or other virtual information superimposed on or otherwise integrated into the scene or objects found in a person's actual physical environment, enabling the expression of an enhanced or augmented experience of reality. For example, when someone uses a webcam or mobile phone-mounted camera to photograph an actual scene together with an identifying symbol or image, the photograph will appear as a synthesis, with a 3D computer-generated image or other pre-registered information integrated into the surrounding environment.



A picture book using augmented reality (with a 3D illustration of a fish)

Big data

A general term for massive amounts of data of various types. Big data is attracting attention for providing indicators that are affecting how companies do business. For example, companies may refer to information service usage trends or product purchasing histories when predicting consumers' preferences or buying patterns.

Business Process Outsourcing (BPO)

Commissioning of some or all of the processes that make up a business's various activities to be performed by an outside company that has specialized expertise, an advanced information security environment, and operational infrastructure. A special feature of DNP's BPO business is its comprehensive nature. Rather than simply performing secretarial functions, we start from scratch and design optimal business processes, prepare an operational framework, build systems and/or operate them according to each business's characteristics and needs.

Card-linked offers (CLOs)

CLOs use knowledge of individual credit card holder's personal attributes and purchasing history to select card holders who are likely to buy a particular product. Information about relevant special offers is distributed directly by smartphone or email, etc., directing customer traffic to participating merchants and promoting use of the credit card.

Digital signage

An information medium that usually uses large, flat-panel displays linked to an information network in order to deliver advertisements or other information tailored to a particular time and place. It is installed in stores, public institutions, train stations, airports and other public spaces, and may have a variety of built-in functions. For example, it may enable consumers to obtain specific information by using a touch panel or mobile terminal, etc.

Electronic library

A service that lends electronic books to libraries and provides the content to readers via the Internet after the publisher or other rights holder has authorized distribution. The system is expected to provide new opportunities for making use of published content. Many Japanese libraries are already participating.

Hybrid bookstore network “honto”

A service offered by DNP that sells both paper and electronic books by integrating DNP’s e-book sales service, online mail-order bookstore, and physical bookstores operated by MaruzenJunkudo, Bunkyo-do, and some stores of Keirindo-syoten. The service provides such features as a “recommend function” that suggests books a customer might like based on previous purchasing history, a “point service” program that allows customers to combine loyalty points regardless of which formats they use, and an “electronic bookshelf function” that can display a single list of all of a customer’s paper and electronic book purchases together. Full-fledged operation of “honto” began in June 2012.



Maruzen’s main bookstore in Tokyo’s Marunouchi district

Information Processing Services (IPS)

DNP’s own term for our uniquely broad menu of services including inputting and safely transmitting massive amounts of personal information and other data, editing and processing, printing, producing, mailing and/or transmitting invoices, statements, and other forms of personalized mail—all in environments protected by advanced information security systems.



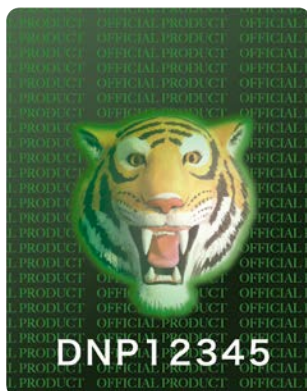
Personalized mail

International brand prepaid cards

An electronic settlement method that allows customers who do not have a credit card to use settlement terminals that belong to international credit card brands like Visa or Mastercard. The prepaid cards can generally be used by customers of any age, at businesses that accept major credit cards. Because they are prepaid, there are no worries about overspending. DNP is also offering international brand debit cards, whereby payments are immediately deducted from the customer’s bank account, as part of its focus on electronic settlement services involving international credit card brands.

Lippmann hologram

A type of hologram, which is a three-dimensional image recorded using a split laser beam. Lippmann holograms are excellent for expressing vertical and horizontal three dimensionality and a sense of depth. They are extremely hard to counterfeit because their production requires special equipment. These holograms have garnered praise around the world for providing a high level of security and potential for outstanding designs.



Shueitai

DNP’s original font, which we have been developing since the Meiji Era that began in the late 1860s. The sleek and graceful font elicits high praise from book publishers and readers for being beautiful as well as easy to read. From 2005 to 2012 we carried out a major project involving renewal of our

existing font and development of new fonts. We created a digital version in the 1970s and have been licensing its use since 2001.



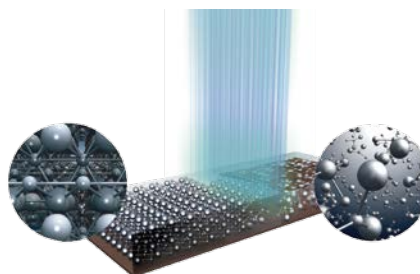
3. Lifestyle and Industrial Supplies

Biomass material

“Biomass” may refer to the total quantity of organisms living in a particular area, or it may mean organic resources derived from living things other than petroleum or other fossil resources. Biomass material is made from resources of biological origin, such as vegetable resins or natural fibers. Biomass material has attracted attention as a material that puts relatively little strain on the environment due to the idea that CO₂ absorbed by plants during their growing process cancels out the CO₂ emitted when the material is burned. Since biomass material is a renewable resource, supplies are expected to be stable.

Electron Beam (EB) technologies

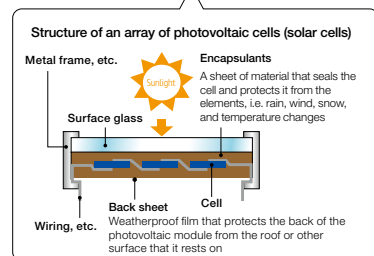
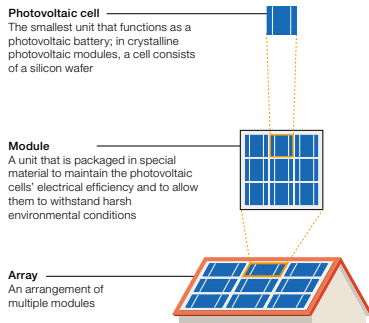
EB technologies use electron beam exposure to instantly provide advanced functionality to resins and coating films. Depending on the type of resin and EB exposure conditions, some materials may take on extra functionality not exhibited by normal resins. The technology is environmentally conscious since production processes do not require the use of solvents, and consume less energy and generate less CO₂ than conventional coating methods.



Photovoltaic module components

- Back sheets are weatherproof films that protect photovoltaic modules from external elements. They prevent precipitation from entering modules, making it possible to use them outdoors for a long period of time. Back sheets must be very durable and moisture proof, and have good electrical insulating properties.
- Encapsulants are protective sheets used to secure photovoltaic cells and their peripheral wiring in place, and to form photovoltaic modules. An encapsulant forms a strong bond between a module's back sheet and its front glass.
- Bus line sheet is a sheet configured with electrode circuit patterns used in photovoltaic cells. DNP's bus line sheet configures electrodes by attaching them to the back of a (back-contact) photovoltaic cell. Since electrodes positioned at the back of the cell do not block sunlight exposure, "shadow loss" is reduced and power generation efficiency is increased.

Structure of an array of photovoltaic cells (solar cells)



Regenerative medicine

A therapeutic method using artificially cultivated cells or tissues to restore or recover the function of tissue or organs lost through disease or accident.

Universal design (UD)

The term "universal design" is said to have been coined by North Carolina State University professor Ronald Mace, who defined it as "the design of products and environments to be usable by all people, to the greatest extent possible." Unlike the term "barrier-free," which refers to removing obstacles for people with physical disabilities, UD proposes that products, services, all types of facilities and living environments should be designed so that most people can enjoy them not only whether or not they have a disability, but also regardless of differences in age, gender, nationality or personal abilities.

4. Electronics

Lead frame

A metal component inside a semiconductor package that supports the semiconductor chip or chips and transmits electric signals.

MEMS (Micro Electro Mechanical System)

An electronic device that integrates components like IC chips, sensors and electronic circuits into a three-dimensional structure mounted on a base, which is usually a silicon wafer.

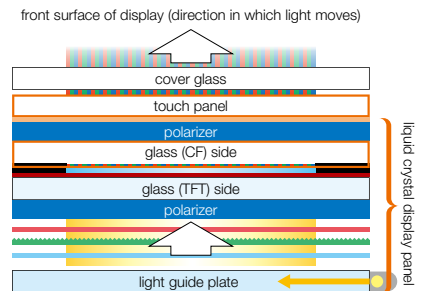
OLED display

Organic electroluminescence is a phenomenon that occurs when a voltage is applied to certain organic compounds, whereby the compound emits light while producing almost no heat. An organic light-emitting diode (OLED) is a product that takes advantage of this phenomenon. Unlike liquid crystal displays (LCDs), OLED displays do not require a backlight because they use self-luminescent OLEDs. This means they can be thinner, lighter and consume less electric power. Since they also offer the possibility of using substrates made of

plastic or other flexible materials that can withstand bending and curling, OLED displays are attracting attention as a next-generation alternative to LCDs.

Touch panel sensor

A component of a touchscreen display that receives, in the form of a signal, the location where a user's finger has touched a display. Touchscreens allow intuitive operation of devices like smartphones, tablets, and digital signage, making it possible to enlarge or shrink images, to turn pages or select information, etc. by touching the screen with one or more fingers. In order to supply touch panel manufacturers with sensors, DNP uses its patterning technologies to give sensory function to glass or film by forming a minute electrode pattern along its length and breadth.



Example of a touch panel combined with a liquid crystal display panel

Sources of Information about DNP

Web Site (English: <http://www.dnp.co.jp/eng/>)

Our web site introduces our operations in a format that is easy to understand. In addition to disclosing information at appropriate times and in appropriate ways, we are continuously improving the site. The following publications and reports are also available as PDF files that can be downloaded from the web site.



DNP English Web Site
(<http://www.dnp.co.jp/eng/>)

Publications

- **Annual Report (Japanese and English versions)**
Each year around the end of July, we release Japanese and English versions. This comprehensive report contains various types of information, including reports about business activities based on our Group Vision, financial information and non-financial information, all pertaining to a particular fiscal year.
- **Data Book**
(Bilingual: Japanese/English; available only as PDF file for download from web site)
Issued near the end of July every year, the Data Book contains values from financial statements of the past 10 years, and financial analysis values in the form of tables and graphs, etc. Financial statement values are taken from securities reports.
- **“DNP Report” Report to Shareholders (in Japanese)**
This report is delivered quarterly to shareholders. Aimed mainly at individual investors, its contents include summaries of financial results, special features about business activities, and introductions to various technologies.
- **DNP Group CSR Report (in Japanese)**
(English version; available only as PDF file for download from web site)
We report about DNP’s role in society from the standpoint of its business activities and relevant processes. We release Japanese and English versions around July or August.
- **DNP Group Environmental Report**
(Japanese and English versions; available only as PDF files for download from web site)
This report explores in detail the environmental management activities that are among DNP’s CSR initiatives. We release Japanese and English versions around July or August.
- **DNP Corporate Profile (Corporate Brochure: Japanese and English versions)**
This publication introduces each segment’s products and services, operating locations in Japan and around the world, company history, a summary of our activities, and other basic information about DNP.



“DNP Report” to shareholders



DNP Group CSR Report

Reports

- **“Yuho” Annual Securities Report, etc. (in Japanese)**
In accordance with Article 24 of the Securities Exchange Law, DNP submits quarterly reports to the Finance Ministry in August, November, and February. In June, DNP submits a quarterly report combined with a “Yuho” annual securities report. These are broad-ranging reports that include consolidated financial statements with auditing reports attached, non-consolidated financial statements, performance reviews, information about shares and corporate directors, etc.
- **“Tanshin” Earnings Release (Japanese and English versions)**
In accordance with Tokyo Stock Exchange rules, we prepare earnings releases for each quarter. In addition to consolidated financial statements, we report on the status of sales, etc.

Note: Trademarks mentioned in this annual report in connection with DNP products or services are used or registered in Japan.

About the Cover Illustration

Our design reflects the corporate philosophy espoused in DNP Group Vision 2015: “The DNP Group connects individuals and society, and provides new value.” We illustrated how DNP uses P&I innovations to create unexpected new results, primarily in the areas of Knowledge and Communication; Food and Healthcare; Lifestyle and Mobility; and Environment and Energy.

Design by groovisions

Design studio established in 1993. Primarily focused on graphics and video, groovisions works in a wide variety of media including music, print, product and interior design, fashion and the Web. Main projects include stage visuals for PIZZICATO FIVE, editorial design for Metro Min. magazine and other publications, motion graphics for EXPO 2005 AICHI JAPAN, Maison Hermès shop window direction, and ggg’s (Ginza Graphic Gallery’s) 301st exhibition.



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